EXAMINING DISCRIMINATION AND OTHER BARRIERS TO CONSUMER CREDIT, HOMEOWNERSHIP, AND FINANCIAL INCLUSION IN TEXAS

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EXAMINING DISCRIMINATION AND OTHER BARRIERS TO CONSUMER CREDIT, HOMEOWNERSHIP, AND FINANCIAL INCLUSION IN TEXAS

Wednesday, September 4, 2019

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:17 a.m., at the Fountain Life Center, 14083 South Main Street, Houston, Texas, Hon. Al Green [chairman of the subcommittee] presiding.

Members present: Representatives Green, Tlaib, and Garcia of Texas.

Also present: Representatives Meeks, Clay, Cleaver, and Dingell.

Chairman GREEN. The Oversight and Investigations Subcommittee will come to order.

The title of today’s subcommittee hearing is, “Examining Discrimination and Other Barriers to Consumer Credit, Homeownership, and Financial Inclusion in Texas.”

Without objection, the Chair is authorized to declare a recess of the subcommittee at any time. Also, without objection, Members of the House who are not members of this subcommittee may participate in today’s hearing for the purposes of making an opening statement and questioning the witnesses.

And, without objection, members of the local media who are invited to this hearing may engage in audio and visual coverage of the subcommittee’s proceedings. Such coverage is solely to educate, enlighten, and inform the general public on an impartial basis of the subcommittee’s operations and consideration of legislative issues, as well as developing an understanding and perspective on the U.S. House of Representatives and its role in our government. This coverage may not be used for any partisan political campaign purpose or be made available for such purpose.

The Chair now recognizes himself for 5 minutes for an opening statement.

Today’s hearing marks the first field hearing I have convened in Texas in my capacity as Chair of the Oversight and Investigations Subcommittee. Therefore, it is fitting that this hearing focuses on a crucial topic for residents of Texas and the 9th Congressional District, namely, discrimination and other barriers to homeownership, credit, and affordable financial services.
Whether for the financing of a home, for college tuition, for a new business, or for day-to-day living expenses, fair access to credit products, lenders, and services is at the heart of financial inclusion. Yet for too many Texans, a mortgage, credit card, or even a low-cost checking account that is free of hidden fees remain out of reach.

This lack of access to affordable financial products and services is exacerbated by the events of the past decade. During this time, we have seen the number of minority-owned banks plummet from 44 African American-owned banks in 2007 to just 19 today; from 53 Hispanic-owned banks a decade ago to just 26 today; from 99 Asian American-owned banks in 2010 to just 63 today; and from 22 Native American-owned banks in 2010 to just 18 today.

Over the same period of time, the banking industry overall has witnessed a massive and continuing consolidation, such that today just eight megabanks hold fully half of all banking assets in America. Some things bear repeating: Eight megabanks hold fully half of all banking assets in America.

Further exacerbating the problem of effective lending for minority-owned banks is the lack of capacity to fund the major projects that can aid small businesses in their development, as well as improve the quality of life in the community where the banks are located.

For decades, regulators and researchers alike have found overwhelming evidence of invidious discrimination in mortgage lending, small business loans, and other financial products. This is unacceptable, and it must end.

Prosecutors and think tanks have developed empirical evidence validating what our community knows all too well: Discrimination is a fact of life in the economic lives of minorities seeking access to housing in 2019, 51 years after the enactment of the Fair Housing Act. This is unacceptable, and it must end.

Today, in 2019, 41 years since the Community Reinvestment Act was enacted, new research released just this week reveals a pattern of disinvestment, discouragement, and inequitable treatment of Black- and Hispanic-owned businesses, a pattern spanning the period from 2008 to 2016. This is unacceptable, and it must end.

Some of the worst offenders in the financial industry have been charged, convicted, and punished with just a slap on the wrist for discriminatory and predatory practices against their own customers. But these recidivists continue, often repeating the same course of conduct and absorbing penalties and fines for discrimination as merely a cost of doing business, allowing the cycle to continue. This, too, is unacceptable, and it must end.

Measured against the megabanks' record $780 billion in profits over the past decade, the $160 billion in fines they paid may become just another cost of doing business. If ever this state of affairs were deemed acceptable by some, it is no longer acceptable and it must end.

We are convened here today in Houston, as Members of the Congress from around the nation, to begin the end of this form of invidious discrimination, the end of discrimination against small businesses, small businessmen and women seeking a fair shake when they apply for a loan, the end of disparate treatment against
LGBTQ+ home buyers seeking a mortgage on the same terms as their straight and cisgender counterparts, and the end of financial institutions treating simply as a cost of doing business the billions in fines they pay for recurring discriminatory and predatory conduct against borrowers of color.

It is my intention to explore the legal and policy solutions that will ensure that no one is left behind, such that finally, American economic life becomes truly inclusive and equitable.

In conclusion, I wish to thank my colleagues, Representatives Cleaver, Clay, and Meeks, soon to be joined by Representative Tlaib, for making the trip here from Missouri, New York City, and Michigan. And of course, we have Ms. Garcia, who is my neighbor here in Texas, and I thank her for traversing the short distance and being here with us as well.

I am pleased to be able to help to bring some visibility to critical issues of equity and fairness for all Americans. That is what this hearing is all about.

And at this time, I would like to introduce our first panel of witnesses. I would like to extend a warm welcome to each of the witnesses.

On our first panel, I am pleased to introduce now Judson Robinson III, CEO and Chair of the Houston Area Urban League; Belinda Everette, Director, Housing Initiative, NAACP Houston Branch; John Wong, Founding Chair, Asian Real Estate Association of America; Hua Sun, Associate Professor, Finance, Iowa State University; Dedrick Asante-Muhammad, Chief of Race, Wealth, and Community, National Community Reinvestment Coalition.

Welcome to all of you, and thank you for being here. Each witness will be recognized for 5 minutes to give an oral presentation of their testimony. And without objection, the witnesses’ written statements will be made a part of the record.

Once the witnesses finish their testimony, each Member will have 5 minutes within which to ask questions. The timekeeper will signal when you have 1 minute remaining. As a matter of fact, this will be your 1-minute signal.

[Timer sounding.]

This will let you know you have 1 minute remaining. After your time is up, you will hear the gavel.

[Gavel sounding.]

This will indicate that you should wrap up, if you have not already wrapped up.

We will begin with Mr. Judson Robinson. You are now recognized for 5 minutes for your statement.

STATEMENT OF JUDSON ROBINSON III, CEO AND CHAIR, HOUSTON AREA URBAN LEAGUE

Mr. Robinson. Thank you, Chairman Green, and distinguished members of the subcommittee, for allowing me to testify about discrimination and other barriers to consumer credit, homeownership, and financial inclusion in Texas.

In addition to my current role as president and CEO of the Houston Area Urban League, I have the privilege of serving this community as a member of our city council and as vice mayor pro tem.
I have considerable insight into the barriers that prevent Houstonians from sharing in the great prosperity of our City.

A longer version of my testimony has been submitted to the committee, which identifies sources of discrimination and barriers and suggests solutions, so I will use my brief time to highlight a few issues of particular concern.

The mission of the Urban League is to enable African Americans and other underserved communities to secure economic self-reliance, parity, power, and civil rights. We help our constituents attain economic self-reliance through homeownership, job training, good jobs, entrepreneurship, and wealth accumulation.

Our views and recommendations are based on decades of direct program experience in urban communities across the country, and our historic role in documenting and fashioning remedies to address our nation's long and unfortunate history of discrimination against communities of color. The subject of today's hearing falls squarely within the mission of our organization, both nationally and here in Texas.

There is a serious lack of access to affordable credit in communities of color. The 2008 financial crisis, during which Americans lost more than $19 trillion in household wealth, impacted minorities disproportionately. Perverse incentives in the secondary mortgage market drove unscrupulous brokers and loan officers to target otherwise creditworthy borrowers in communities of color with abusive and predatory loans.

The result of targeting minority borrowers with predatory mortgage products, in effect, set up these same borrowers to be disproportionately affected when the housing market crashed. African-American and Latinx borrowers were much more likely to receive high-interest subprime loans and loans with features that are associated with higher foreclosures.

The lingering effects on communities of color have been devastating. In Texas, low- and middle-income families are having particular trouble finding affordable apartments to rent or houses for which they can secure a mortgage.

Houston has among the nation's most extreme income gap between renters and homeowners. A typical renter's income of $39,500 is 64 percent of a typical homeowner's income of $61,470. The City's Black homeownership is about 32 percent, far lower than before the 2008 financial crisis.

As in many cities, African Americans here are more likely to lose their homes to foreclosure, and they continue to face barriers to accessing credit today. Houston residents are also facing the economic hardships brought about by Hurricane Harvey, which increased the demand for homes and helped push up real estate prices.

Redlining remains a serious problem. In 1977, Congress passed the Community Reinvestment Act (CRA) because of concerns that federally insured banking institutions were not making enough credit available in the communities they served. Disinvestment practices allowed depository institutions to accept deposits from African Americans in the inner city and reinvest them in more affluent suburban areas.

Redlining prevented African Americans and others from securing affordable homes and mortgages in decent neighborhoods and pur-
Proposed segregated communities. Segregated into slums, African Americans were concentrated into poverty by intentional discriminatory policies. They were denied credit to purchase homes, start small businesses, and to meet everyday living expenses. Blight, crime, and decreased property values resulted. Cities were left behind with no adequate tax base for basic services, accelerating community deterioration.

To be clear, the CRA is one of the most important civil rights and economic justice laws of the 20th Century. In the 21st Century, however, the law is in dire need of reform. CRA-regulated institutions have not met the needs of the community, allowing an array of non-banks to enter the marketplace, many of whom provide high-cost and often predatory products. Simply put, the CRA can and must do more.

Housing segregation reinforces racism and diminishes us as a nation. Under pressure from the insurance industry, the Department of Housing and Urban Development has proposed weakening the regulation of disparate impact claims under the Fair Housing Act. If this rule becomes final, victims of housing discrimination will have very limited judicial remedies. Their access to the courts will be all but gutted.

I will skip to public housing. The 1.1 million housing units operated by public housing nationwide are in need of repair and modernization. Funding to address necessary maintenance repairs at public housing associations is generally under the purview of Congress through the Public Housing Capital Fund, which aims to help PHAs maintain their operations and address any backlog in capital repairs. However, this program is severely underfunded.

[The prepared statement of Mr. Robinson can be found on page 81 of the appendix.]

Chairman Green. Thank you for your testimony, Mr. Robinson. Ms. Everette, you are now recognized for 5 minutes.

STATEMENT OF BELINDA EVERETTE, DIRECTOR, HOUSING INITIATIVE, NAACP HOUSTON BRANCH

Ms. Everette. Thank you for allowing me to serve on this panel, and I am very appreciative to serve on the nation’s largest and oldest civil rights organization, as well.

A pivotal component to the challenge to increase African-American homeownership has been, and continues to be, access to credit, specifically residential home mortgages. Homeownership is the most significant factor contributing to the disparate gap in wealth between whites and minorities. A study by Brandeis University reveals that years of homeownership, not just homeownership, is the driving force at the core of the gap.

Housing, lending, and insurance markets have served as the bastions of overt discrimination through residential segregation. The dual credit markets in the United States make it easy for mainstream lenders to ignore and avoid minority and low- to moderate-income communities, but provide easy access for payday loan stores, pawn shops, and hard money lenders with their specialized products designed to drain the life’s blood from many communities of color.
Drive through many of Houston’s historic minority communities and you will see a plethora of fast-money resources with high interest rates and easy payroll deduction repayment structures. Most payday lenders enjoy 400 percent interest on loan amounts from $50 to $500. This is the level of credit that is readily available to Houston’s minority population.

Since 2007, African-American homeownership has experienced the most dramatic decline of any racial or ethnic group. African-American homeownership declined 5 percent in the past 10 years, while Caucasian, Asian, and Hispanic homeownership declined by only 1 percent. Researching the most recently published Home Mortgage Disclosure Act (HMDA) data for the Houston-Woodlands-Sugar Land Metropolitan Statistical Area (MSA), these numbers are supported by an alarming ongoing trend in mortgage origination.

Of less than 5,000 applications, conventional mortgage loans originated in the entire Houston MSA consisted of 2,921 loans, for a 58-percent approval rate. The Hispanic Americans in this great City originated 13,000 applications and had a 54-percent approval rate for 7,000 loans. That is contrasted by 52,346 applications for white or Caucasian Americans, with a 71-percent approval rate for 37,000 loans.

The statistics reveal a systemic and pervasive discriminatory system at work. According to the City of Houston, the demographic makeup of the Houston MSA is 25 percent white, 22 percent Black or African American, 45 percent Hispanic American, 7 percent Asian American, and 1 percent other or mixed race. Whites are provided homeownership opportunities at a rate that is 10 times that of African Americans, and 4 times that of Hispanic Americans.

One of the most important steps in stabilizing and expanding sustainable homeownership within minority communities is to expand their access to credit. We need to have a greater focus on consumer education and housing education related to building credit and using low-down-payment and down-payment assistance programs. More than 70 percent of all adults are unaware that down-payment assistance exists, and that 87 percent of all homes sold in the United States qualify for down-payment assistance.

While nationally, the African-American homeownership rate peaked at 45 percent during the first 6 years of our new millennium, it is currently at 42 percent, and Houston is at only 38 percent.

However, in celebration of the 100-year anniversary of the NAACP, we developed and introduced a housing initiative, Homes for Houston, featuring a Home Buyer Education Program to address the rapid decline in minority homeownership. The Home Buyer Education Program took a comprehensive approach to educating consumers on every aspect of the home acquisition process, from learning financial and credit management, to understanding sales contracts, appraisals, and title work. The curriculum provides common-sense, comprehensive education for consumers. Additionally, the seven-module course includes a detailed module on down-payment assistance programs.

In its inaugural year, over 230 people completed the program, with 22 new homeowners for $3.8 million in the first 6 months, and
by year’s end, we had an additional 50 people in the process for $12 million in new mortgages.

Education and access to resources are the key, but a partnership and alliance with the financial services community is the driving factor to the success of our program. Meeting people where they are and providing true investment in the community by investing in its people is the solution to increasing and sustaining minority homeownership.

[The prepared statement of Ms. Everette can be found on page 63 of the appendix.]

Chairman Green. Thank you for your testimony, Ms. Everette.

Mr. Wong, you are now recognized for 5 minutes.

STATEMENT OF JOHN WONG, FOUNDING CHAIR, ASIAN REAL ESTATE ASSOCIATION OF AMERICA (AREAA)

Mr. Wong. Chairman Green, members of the Oversight and Investigations Subcommittee, and members of the audience, I thank you all for the opportunity to speak on behalf of the Asian Real Estate Association of America (AREAA), and the Asian American and Pacific Islander (AAPI) communities whom its members serve.

AREAA represents over 17,000 real estate and mortgage professionals from across the country. AREAA is the largest AAPI professional association in the United States and is comprised of professionals who work directly with AAPI families in the real estate and mortgage lending markets. On a daily basis, AREAA’s members work with clients who experience discrimination and barriers in their quest to achieve the American Dream of homeownership. It is on their behalf that I rise before you to testify.

HMDA data shows that Asian-American mortgage applicants face the highest proportional denial rates due to incomplete applications. These incomplete applications result from hurdles and barriers faced by AAPI applicants.

One such barrier is language comfort. AREAA’s 2019 State of Asia America report declares that the AAPI community is linguistically diverse and vibrant: 77 percent of AAPI families responded that they speak a language other than, or in addition to, English at home; 19 percent said they spoke English well, but not very well; 12 percent stated they did not speak English well; and 4 percent do not speak English at all.

To address this reality, AREAA actively advocates for inserting an information-gathering language question on the Uniform Residential Loan Application, the URLA form. AREAA was pleased that the Federal Housing Finance Agency (FHFA) originally agreed to the inclusion of this language preference question for borrowers. AREAA regrets that the inclusion of this question has now been reversed, and we will continue to work on language access to strengthen the understanding for AAPI communities.

AREAA is an active member of the Language Access Working Group, formed jointly by FHFA, Fannie Mae, and Freddie Mac, to improve the ability of mortgage-ready, but limited-English-proficiency (LEP) borrowers to understand and participate in all facets of the mortgage life cycle.

AREAA fully supports development of an online library with standardized definitions of mortgage terms in multiple languages.
This library would bring consistency to the understanding and definitions that consumers, industry professionals, and regulators have for the terms used in the loan application.

The library is currently available for Spanish translation at the FHFA website. The Asian languages to be included are Chinese, Vietnamese, Korean, and Tagalog. Chinese and Vietnamese are scheduled to become active on the website this year. AREAA urges that this FHFA-Fannie Mae-Freddie Mac plan continue.

The evaluation methodology for creditworthiness is a second major hurdle for AAPI borrowers. Many Asian Americans and Pacific Islanders, especially foreign-born immigrants, come from cultures in which taking on debt is rare or frowned upon. The methodology for measuring likeliness to repay a loan does not work for borrowers from such cultures.

The denial rate for mortgage applicants based on insufficient credit histories identifies that Asian Americans are denied at double the rate of other demographics. HMDA data shows that AAPI mortgage applicants disproportionately faced the highest denial rates due to unverifiable credit information.

We are pleased that FHFA has announced that Fannie Mae and Freddie Mac are adding additional credit-measuring metrics to their creditworthiness evaluations.

The Asian Real Estate Association of America believes in a housing market that is free from discrimination for all participants. AREAA opposes policies and practices that are known to have disparate impact on any demographic group defined by race, color, religion, national origin, sex, handicap, familial status, sexual orientation, and gender.

There is a fairness component in AREAA’s goals and actions to evolve. The Federal Reserve 2018 Survey of Consumer Finances reports that families who own their homes have an average net worth of $231,400, when compared to the $5,200 average net worth of families who rent. This is a 44-percent differential. This is validated by the experience of AREAA members and their clients’ experiences.

[The prepared statement of Mr. Wong can be found on page 95 of the appendix.]

Chairman Green. Thank you very much, Mr. Wong, for your testimony.

We will now recognize Mr. Asante-Muhammad for 5 minutes.

STATEMENT OF DEDRICK ASANTE-MUHAMMAD, CHIEF, RACE, WEALTH, AND COMMUNITY, NATIONAL COMMUNITY REINVESTMENT COALITION (NCRC)

Mr. Asante-Muhammad. Good morning. And thank you, Chairman Green, and members of the subcommittee, for inviting me here as a representative of the National Community Reinvestment Coalition to speak about entrepreneurship, credit, and racial wealth inequality.

NCRC was formed in 1990 and has grown into an association of more than 600 community-based organizations that promote access to essential banking services, affordable housing, entrepreneurship, job creation, and vibrant communities for America’s working families.
In January of 2019, the Institute for Policy Studies released a report entitled, “Dreams Deferred,” that highlights that racial wealth inequality has been increasing over the last 33 years.

In 2016, white median wealth was $146,984, Latino median wealth was $6,591, and Black median wealth was at a low $3,557. There is growing recognition that wealth is an essential indicator of the economic well-being and stability of households, and that such low levels of wealth among Blacks and Hispanics is a significant indicator of continuing, deep, racial economic inequality.

Professor Ed Wolffs’ 2017 paper, “Deconstructing Household Wealth Trends in the United States, 1983 to 2016,” notes that throughout the last 33 years, unincorporated business equity has consistently been the second-largest percentage of gross assets for households behind only principal residence. Business equity is a foundational part of wealth development in this country, making small business development a central aspect of strengthening financial well-being for many Americans.

Today, NCRC released a White Paper examining the reality and the practices of bank investing in small businesses. NCRC and our academic partners—Dr. Jerome Williams at Rutgers, Dr. Glenn Christensen at Brigham Young University, and Dr. Sterling Bone at Utah State University—conducted a two-part study to evaluate differences in small business ownership and lending opportunities.

In one section, NCRC analyzed small business ownership and lending at the national and metropolitan level in seven cities using data from the Federal Government. The seven areas we examined are Atlanta, Houston, Los Angeles, Milwaukee, the five boroughs of New York City, Philadelphia, and Washington, D.C.

Next, NCRC and our partners conducted a series of mystery shopping tests of banks to evaluate the customer service experience of prospective borrowers of different races and ethnicities in the Los Angeles metropolitan area. The title of our paper, “Disinvestment, Discouragement, and Inequity in Small Business Lending,” speaks to much of what we found in our research. Our paper highlights that there are tremendous gaps in Black and Hispanic business ownership relative to their population size. Although 12.6 percent of the U.S. population is Black, only 9.5 percent of African Americans are business owners, and only 2.1 percent of businesses with employees are Black-owned. Hispanics are 16.9 percent of the population but only own 5.6 percent of small businesses with employees.

There is also a lack of access to capital through the traditional banking market, especially for Black business owners, who have seen a steep decline in Small Business Administration (SBA) 7 lending from 8 percent of loans to 3 percent of loans.

NCRC’s mystery shopping test indicates substandard customer service, including inadequate presentation of loan information for all testers regardless of race. It is also true that white testers received superior customer service by being asked fewer questions about eligibility and obtaining more information about the loan product than were their Black and Hispanic counterparts.

One of the barriers that NCRC’s research team found when analyzing the lending data in the small business arena is the lack of publicly available data. It is imperative that Section 1071 of the...
Dodd-Frank Act be implemented. Section 1071 would require lending institutions to submit data on small business loans made to minority- and women-owned businesses. The nonimplementation of Section 1071 of Dodd-Frank inhibits the ability to understand whether capital is allocated in an equitable way to women- and minority-owned small businesses.

Chairman Green has introduced two bills, H.R. 149 (the Housing Fairness Act), and H.R. 166 (the Fair Lending for All Act), during this congressional session. Both bills would strengthen fair housing and fair lending laws by increasing the support for testing at both HUD and the Consumer Financial Protection Bureau, allowing for more in-depth analysis of investment and capital that becomes the basis of financial security for so many American households.

Thank you, Chairman Green, for the opportunity to highlight our research in the small business arena.

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

Chairman GREEN. Thank you.

At this time, we will hear from Professor Sun for 5 minutes.

STATEMENT OF HUA SUN, ASSOCIATE PROFESSOR, FINANCE, IOWA STATE UNIVERSITY

Mr. SUN. Good morning. I want to thank Chairman Green and the subcommittee members for giving me the opportunity to testify at this hearing. My name is Hua Sun, and I am an associate professor of finance at Iowa State University.

I am pleased to discuss our findings on potential disparate lending practices to same-sex borrowers. I recently published a paper—Lei Gao is my co-author—that looks at this issue.

The primary data we used is a 20-percent random sample from HMDA from 1990 to 2015. It gave us over 30 million observations on residential mortgage application records that involved both a borrower and a co-borrower.

We then merged this data with Fannie Mae single-family loan performance data on over 400,000 mortgages originating after 2004. And this merged data gave us a chance to look at financing costs and succeeding loan performance.

Our findings show that compared to hetero-sex applicants with similar characteristics, same-sex borrowers, on average, experienced about a 3- to 8-percent lower approval rate.

Further, among approved loans, lenders charged, on average, a higher interest rate and fees in the range between 2 to 20 basis points. Our inferred dollar value on the higher financing costs imposed on same-sex borrowers is between $8.6 million to $86 million nationwide every year amongst same-sex borrowers.

Yet, we were unable to find statistical evidence that same-sex borrowers are more risky. Indeed, our data reveals that same-sex borrowers appear to be slightly less risky than comparable hetero-sex borrowers. They exhibit similar default risk, but statistically significant lower prepayment risk than comparable hetero-sex borrowers.

In one other robustness check, we looked at a subsample of same-sex borrowers to rule out the possibility that they are only relatives. So, basically, we looked at a subsample of same-sex bor-
rowers who are of a different race, and we continued to find a significantly lower approval rate on this restricted sample.

One serious limitation of HMDA data is its lack of information on the borrower’s characteristics, such as their credit history. To mitigate this problem, we cross-validated our study by using a small sample of mortgage borrowers from the Boston metropolitan area in 1990.

The strength of this Boston data is that it has very detailed information on borrower characteristics such as their credit history, work experiences, and educational backgrounds. And the Boston data, after we controlled for a wide range of mortgage and borrower characteristics, revealed that same-sex borrowers are 73.12 percent more likely to be denied when they apply for a loan.

We also looked at time series performance of loan underwriting nationwide, and we found that the gap of the lower approval rate to same-sex borrowers is rather persistent. Indeed, the HMDA data shows that the gap was even larger in 2015 than in the year 1990.

In regard to the agency versus non-agency loans, we found that the largest gap seems to be on conventional loans, where the raw approval rate on same-sex borrowers is about 7 percent lower. The gap is about 4 percent for VA loans and 0.8 percent for FHA loans.

To summarize, our findings document some statistically- and economically significant findings on adverse lending outcomes to same-sex borrowers. The disparate lending practice seems to be throughout the life cycle, from applying for, to paying off a loan.

Given the fact that current credit protection laws, such as the Fair Housing Act and the Equal Credit Opportunity Act, do not explicitly list sexual orientation as a protected class, it is my wish that our study and this testimony will help initiate a constructive discussion on the need and the means to provide better protection to same-sex borrowers.

Thank you very much.

[The prepared statement of Mr. Sun can be found on page 92 of the appendix.]

Chairman GREEN. Thank you, Professor.

At this time, the Chair will recognize the gentlelady from Texas, Ms. Garcia, who is a member of the subcommittee, for 5 minutes for questions.

Ms. GARCIA OF TEXAS. Thank you, Mr. Chairman, and I would like to start off today by thanking you for convening this very important hearing. I know we have looked at this topic some in the broader sense on the committee, and certainly you have filed some legislation that might address some of these issues. But it is always so great when we can go in the field and hear directly from the folks at home.

The Houston region is one of the most diverse metropolitan areas in the country. Our diversity is one of our strengths, and it is one that should make us all very proud.

At the same time, we need to wrestle with some hard truths locally and as a nation. The legacy of discrimination and racism has kept some communities and some of us here today from succeeding.

I have here a redline map of Houston from 1930. Sadly, if we look at it even today, we can certainly see that some of these lines still mirror some of what is happening today.
I know that in my district, the yellow is noted as being a definitely declining area, an area that we need to stay away from. Hazardous in red includes, sadly, part of your district and part of mine. And if we look at some of the numbers that some of you all have mentioned today, certainly we may not have made much progress when you look at it in that respect.

So, today, the most—

Chairman GREEN. Would the gentlelady like to introduce these documents into the record?

Ms. GARCIA OF TEXAS. I ask for unanimous consent to enter this in the record.

Chairman GREEN. Without objection, it is so ordered.

Ms. GARCIA OF TEXAS. Thank you.

Today, the most blatant and obvious discrimination in redlining mostly doesn’t occur, but it continues under the guise of gentrification, where changes are made to a community that do not help those who live there and, instead, pressure them out of their homes.

This committee saw that in Detroit, where Congresswoman Tlaib hosted us earlier in August, and I can only guess that it is repeated all across America.

I also believe, and this committee is looking at this very issue, that we need to make sure that discrimination impacts do not get incorporated into new ways of banking and other financial institutions as they use new technology such as artificial intelligence or algorithms to make lending decisions.

We know discrimination exists. It is sometimes just more subtle and maybe a little more quiet. But we know it is there, and Mr. Chairman, thank you for bringing us together so that we can end it.

I wanted to start my questions with Mr. Wong. Mr. Wong, you mentioned language barriers. Many have talked about economic issues. Some have talked about financial stability.

If you had to name the one factor that we can look at to try to address this, what would that be, that would widen the doors of opportunity for all minorities with respect to the issue that we are talking about today?

Mr. WONG. I think AREAA’s perspective is that the language barriers that are faced by individuals not only impact their ability to obtain a loan, but it affects their ability to maintain the loan sustainably, and even at the very end, should something horrible happen, to not understand what resources are available to help them if they come into problems.

During the foreclosure crisis, a number of AREAA members were involved in the AREAA disposition process. And many noted that homes that had foreclosed owners of Asian surnames, when they did their initial inspection of the property, they were spotless. These individuals had cleaned the floors, mopped everything, and just left. And in discussions with the agencies and other banks, these individuals had never, ever called the lenders to note that there might be an issue.

So I think that, generally speaking, to have something like the language library that is in the process of being implemented—it has been successful with the Spanish language—if that is contin-
ued, rather than deterred in another direction, I think that would be very helpful.

Ms. GARCIA OF TEXAS. All right, thank you.

And Mr. Robinson, you know I had to pick on you. It is good to see you here.

Tell me, when we talk about funding, are we seeing disparity in funding for some of the public housing projects and some of the projects that I know that the Urban League is working on? Can we say that other groups—you know, white groups, if you will—get more dollars in funding and less cuts than, perhaps, the Urban League and some that address minority housing opportunities?

Mr. ROBINSON. Let me speak first from the national perspective.

The most recent study by HUD on the public housing capital backlog was published in 2010 and found that the nationwide backlog of deferred maintenance to address needed repairs and improve the living conditions in public housing stood at $26 billion and would grow at a rate of 8 percent, or $3.4 billion, annually, if not addressed.

According to the same study, 10,000 public housing units are lost each year due to disrepair. The key drivers of the capital backlog in this report were needed household improvements that ensure human health and safety.

To speak locally about the access to resources to ensure that we have adequate public housing, I would say it is pretty general across-the-board. These numbers would impact Texas just as disproportionately as they do any other State as it relates to minorities.

Being strong advocates for the population of underserved is our challenge. Making sure that we have the resources necessary to ensure that our voices are being heard is an ongoing challenge. It always has been. But looking at the national perspective of the overall impact, it is pretty daunting.

Ms. GARCIA OF TEXAS. All right, thank you.

Thank you, Mr. Chairman. I yield back.

Chairman GREEN. The gentlelady yields back.

We will now recognize the gentleman from New York, Mr. Meeks, who is also the Chair of our Subcommittee on Consumer Protection and Financial Institutions.

And I might add that we all serve under the leadership of the Honorable Maxine Waters, who is the Chair of the full Financial Services Committee.

Mr. Meeks, you are recognized for 5 minutes.

Mr. MEEKS. Thank you, Chairman Green. And I want to thank you for your extraordinary leadership in Washington, D.C., and the methods by which you handle the Oversight and Investigations Subcommittee as its Chair, and your strong advocacy in making sure that the people of the 9th Congressional District are receiving the kind of attention they should on the Financial Services Committee, as well as throughout the Congress of the United States, as to accessibility to financial institutions, and your continuing to look into the root causes of the kind of disparities that we have heard from our panelists today, and digging into it and not allowing just courtesy answers by some of the institutions, digging deep
into the reasons and how we can stop the kind of discrimination that I have heard here, the redlining that still continues.

Your pursuit of justice and equality in creating wealth in communities of color is unparalleled. And thank you also for bringing us down to your district and to Texas so that we can continue to have this very, very important dialogue and conversation.

As you indicated, I am from New York, which is probably home to more of the huge financial institutions than any place in the world. And they have a great deal of wealth. Yet, we are seeing the disparities between the haves and the have-nots in this country like never before.

The one aspect, the one way that we saw, particularly in African-American and Hispanic and Asian communities, that you could start closing that wealth gap was two ways: one, homeownership, which after 2008 was devastated; and two, as Mr. Asante-Muhammad has said, ownership of your business, equity ownership. And both of those things, we have recently begun to lose.

We see our role on the Financial Services Committee to restore the focus on the roles of our regulators to make sure that discrimination is stopped; and on the role, particularly of small and minority banks, that they can play in the communities in which our people live.

Indeed, when I think about 2008 in my district—I am sure it is no different than Houston—we suffered the greatest amount of homeownership loss of anybody in New York City.

Yet, the cause of the problem was not the small and minority banks. They were not the ones that were giving out the exotic mortgages. They were not the ones that were giving out the no-document loans. They were not the ones that were giving out the adjustable-rate mortgages that they knew people could not pay for after 2 or 3 years.

So, we are focused now on trying to make sure that we remedy those scenarios. We are coming up—Mr. Robinson, as you indicated, we are looking at now, how do we bring a revised and new and energized CRA so that we can begin to level the playing field?

So I will ask you the first question, Mr. Robinson, because we are talking to the OCC and the FDIC and the Federal Reserve about CRA. And given technology today and how people evolve, what do you see? What would you suggest that we look at and focus on, on our committee, to make sure that they are an integral part of correcting and moving forward with CRA?

Mr. ROBINSON. Well, a couple of the stats that I think someone on the panel mentioned were pretty eye-opening in that the banks had—I think it was actually our Congressman Green who mentioned that there was a profit of $780 billion in the banking industry of just the top-tier banks and $160 billion in losses, and that is a way of just doing business, that they have a $620 billion gain and will take that.

One of the things that we have seen that has helped us to prepare future homeowners to be better prepared for addressing their mortgages and their responsibilities is the fines associated on these banks that have harmed communities of color, and others, to ensure that those dollars come back to agencies like the Urban League and the NAACP, so that we have foreclosure-prevention
programs, so that we have first-time homebuyer programs, so that we have financial literacy programs.

I think that there needs to be an increase in those types of fines and assessments, to ensure that banks are pushing those dollars back into these organizations that can help address language barriers and all of the other things that we have talked about today because the money, I think, is there. And we need to, in turn, try to make sure that the money comes back to the communities that have been impacted by those who have taken advantage of those very same communities.

Mr. MEEKS. Thank you.

Chairman GREEN. The gentleman yields back.

At this time, a brief announcement: This hearing is part one of a two-part process. We will convene again in New York in the 5th Congressional District, which is Mr. Meeks' district, for a continuation of this process because we are trying to develop legislation, and we believe that Mr. Meeks will provide us with the additional intelligence necessary to have efficacious legislation developed.

With that said, we will now hear from the gentleman from Missouri, Mr. Cleaver, who is also the Chair of our Subcommittee on National Security, International Development and Monetary Policy, for 5 minutes.

Mr. CLEAVER. Thank you, Mr. Chairman.

Mr. Asante-Muhammad and Dr. Wong, it is counterintuitive, but when you look at the stock market exploding and growth and, at the same time, look at or listen to all of the proclamations about how great the economy of the United States is going, but when you look at the low-income Americans, their lives are not being impacted. I think only about half of the country is involved in the stock markets, anyway.

And so the government, from my perspective, needs to do something, and I would like to find out what you think we can do. I know CRA has been something that we have all talked about. And as odd as it may seem, in the 1930s Congress actually created an agency to discourage banks from providing loans in what they considered to be hazardous neighborhoods, the antithesis of the CRA.

But with the CRA, something has to be done, I think, and I am interested in your response. Because a bank, for example, can invest in a CRA area and still not help poor folks because they can make investments in or provide loans to people in that area who could get a loan anywhere in town. And so, providing a loan to him or her is not helping, and they can then still claim CRA credit.

What do you think we can do? Yes, please?

Mr. WONG. Thank you.

I think the intention of the Community Reinvestment Act is to support those communities that are underserved, and is an appropriate origination of the concept. And in recognition of the need to revise and revitalize it today, one of the causes for that, from my understanding, is because there are now artificial intelligence metrics and stuff that can be used in some ways to disguise the penetration and use of such products.

My personal perspective—and this is not an AREAA perspective, but I am from the San Francisco Bay area and I am familiar with many of the technology firms that are in Silicon Valley down the
road—AREA also works closely with institutions and academics from across Asia on its real estate work, but also look at those. And I think that the important thing is that because the data is available, we can actually identify true impact, both in the communities it reached, the individuals it reached, and also to determine their performance.

Right now, when you look at individuals who use payment that is online or use these apps, you have a deeper sense of how they are living their lives as it relates to use of credit.

And so that if CRA, as it moves forward, manages to take in not just the large traditional financial institutions, but broader ways that people are accessing credit, but also requires, in fact, the data that comes from there, so that we can see in a very rapid—you do not have to wait 5 years to get data to see how it is going—then, in fact, as to allow the regulators to make adjustments that are based on data, rather than just on positioning innuendo.

So, that is a personal perspective. And I sense that—and you mentioned you have some international oversight—regardless of what one believes of activities in other countries—and it is clear from my American perspective that the privacy laws in China are not what we are comfortable with here—the data and the methodology is being developed to understand more personally how products are penetrating into the market and what the response is.

So I think that is a way to, in fact, eventually become demographic-blind to see how things really work, but then you can better help those who are underserved.

Mr. Cleaver. Thank you. Mr. Asante-Muhammad?

Mr. Asante-Muhammad. Yes. One thing I would note is, again, we do think it is very important that HUD firmly enforce the disparate impact rule, and I think things like the disparate impact rule is essential to make sure the CRA lives up to its promise.

I think we also have to have much more fine-tuned measurements of what we are trying to achieve. Even in the negotiation of CRA, there was a limited focus on income, a limited focus on not getting racial data. I think a racial wealth divide analysis is essential because, as you noted, investing in a low-income area, but making most of that investment with high-income businesses, is very limiting in the impact, in the development that is occurring.

So you must have a much more clear racial wealth divide analysis of who are these funds going to, and making sure that there is a positive impact on the community as a whole, because we are seeing, in the last 30 years, a regression of investments, but the lower-income, even medium-income communities aren't benefitting. And actually, I think, even for African Americans and Latinos, even high-income African Americans and Latinos who are very low wealth are not seeing the benefits that other communities are seeing.

Mr. Cleaver. Thank you, Mr. Chairman.

Chairman Green. The gentleman's time has expired.

At this time, the Chair recognizes himself for 5 minutes.

Ms. Everette and Mr. Robinson, quickly, if you would, give us some intelligence on this question related to small businesses not getting loans in certain areas?
In Houston, the intelligence that I have been afforded indicates that small business loans mostly go to upper-income areas at a rate of about 49 percent, with just 5 percent going to low-income areas, 19 percent to moderate-income areas, and 27 percent to middle-income areas.

Now for edification purposes, all of these persons who ask for small business loans have to qualify to the same extent. So the question becomes, why is it that they can go in certain areas, but not in other areas?

I will start with you, Ms. Everette, and then Mr. Robinson. And if you can be as terse as possible, I have another question.

Ms. EVERETTE. Thank you, Congressman Green.

One of the key indicators or, I should say, qualifiers for a small business is a consideration of the applicant’s assets, and this goes back to the homeownership and how important it is. When you apply for a small business loan, they are looking at your overall assets, and if you have none, if you don’t own a home, you don’t have the collateral.

So I think when you try to look at or understand the lack of availability for small business owners in certain census tracks, unless the financial institution is incented by some program or some guarantee, they are less inclined to take, I guess, a chance on an unsecured loan or an unsecured business loan.

The other thing that I also find when they talk about CRA, when we were vetting financial institutions for the housing initiative, I was, quite frankly, very surprised to learn how many institutions actually meet their CRA requirement through the secondary market. So they will buy pools of loans to artificially inflate their CRA numbers, which will give the impression that they are reaching into certain census tracks and certain communities. But it is not through organic origination; it is through secondary marketing.

Chairman GREEN. Mr. Robinson, would you comment quickly, please?

Mr. ROBINSON. I would have to agree that having a strong financial history of wealth in our community has created huge issues that have cast generations of challenge for minorities and underserved populations. Lack of inheritance, lack of strong credit, lack of just the resources necessary within your own local family band, in addition to all of the traditional resources that people typically see as avenues for opportunity, is lacking in our community, and that will only be built through opportunities that you all can help to generate successful avenues towards changing that direction.

The other thing that we typically see, especially on the entrepreneurship side, is access to angel funds. Access to capital is a huge challenge in our communities. Now, be that a racial matter, I think that there is some legacy of traditional comfort levels with certain populations that does not extend to the people with whom we try to do business.

Chairman GREEN. Thank you.

I would like to go to Mr. Asante-Muhammad. Mr. Asante-Muhammad, pairing and testing, first, explain the process, and then explain, if you would, how can these two pieces of legislation, H.R. 149, the Housing Fairness Act, and H.R. 166, the Fair Lending for
All Act, benefit from this testing, and how can these two bills benefit the public?

Mr. ASANTE-MUHAMMAD. Yes, sir. So the two-pair testing, what we do is we choose an area, and then we choose a certain amount of banks in that area, and we send, depending on what we are testing on, gender or race—we send in maybe a Black man and a white man, or maybe a Latino woman and a white woman—and then we usually give a slightly stronger profile.

Most recently, we were doing small business lending, where there is very little information actually on small business lending. But we give a slightly stronger profile to the minorities. We send them both in to see how they are treated and what the process is. And we can do that through different ways of audiotaping, sometimes videotaping. We have been doing that in the different cities across the country.

And what is clear is—and I think all of the data that everybody has been showing—is that there has been an ongoing negative impact, inequality in lending, whether it is related to homeownership, whether it is related to entrepreneurship. And so we are looking—we are exploring, what are the practices in banks themselves that might be supporting that result?

And we feel that these two pieces of legislation, H.R. 149 and H.R. 166, and their ability to strengthen fair housing and fair lending laws, and increase support for testing at HUD and the CFPB, are essential to having a better understanding of the inequality and the way people are being treated.

And actually, I just want to highlight one of the important things that we noted in our study is that all people, regardless of race, were not receiving good treatment, not receiving treatment we think is appropriate for small business lending. So, I think there is an overall crisis in investing and in developing true small business, and it just disproportionately falls on people of color, particularly Blacks and Latinos.

Chairman GREEN. My time has expired.

Without objection, I would like to introduce three letters into the record: the first is from Harris County; the second is from the City of Houston; and the third is from the U.S. Department of Housing and Urban Development.

All three relate to the replacement of homes after they have been damaged due to some natural disaster, and there seems to be a dispute about how these homes should be replaced.

Without objection, I am going to ask Ms. Everette if you can just quickly tell us why these letters are important in the record.

Ms. EVERETTE. Thank you, again.

The City of Houston has, of course, received a substantial amount of money to assist Harvey victims, and that money is being administered by the Texas General Land Office (GLO). The General Land Office has a requirement that, regardless of house size—how many bedrooms or square footage—that they will only replace a two-bedroom home.

They also have restrictions that are basically cost-prohibitive for senior citizens or many people in that they require environmental studies. Then, the environmental study has to be submitted. You have to get an appraisal. And then, all of that has to be submitted.
Then, you have to get your contractor approved. The GLO has to approve the contractor. Then they have to approve the contractor's bid. And it is not just going directly from the consumer to GLO. It has to go through the City. That is an approval process.

But the biggest issue is that the City has reached out to not only GLO, but to HUD, to try to get an exception to this two-bedroom guideline that they have. And basically, everyone is pointing their finger, saying, well, I don't have the ability to do this, or it is within the State's guideline to have this restriction of two bedrooms.

So what I find astonishing is that there is no square footage guideline, but there is a—if you have a four-bedroom home, the maximum repair will be to two bedrooms. So, your four-bedroom home will now be replaced with a two-bedroom home.

Chairman GREEN. Does any panel member wish to ask a question concerning this?

Ms. GARCIA OF TEXAS. I just want to be clear, you are saying that the rule says that if the house has more than two bedrooms, they won't get coverage?

Ms. EVERETTE. They are saying if it has more than two bedrooms, they will not repair the home or replace it.

Ms. GARCIA OF TEXAS. Regardless of the square footage of the two bedrooms?

Ms. EVERETTE. Regardless. There is no square footage guideline at all. It is just simply two bedrooms.

Ms. GARCIA OF TEXAS. That surely doesn't make common sense, does it?

Ms. EVERETTE. No, it doesn't.

Ms. GARCIA OF TEXAS. No wonder people say we do things that don't make sense. All right.

Chairman GREEN. Does any other Member wish to be recognized on the issue?

[No response.]

If not, thank you very much to all of the members of this panel. You may now be excused, or you may stay and watch the rest of the hearing.

At this time, friends, we have concluded, but we will go forward with the next panel. We are scheduled to take a break, but because we have some flight issues and various other things that would be infringed upon if we prolong this, we will go right into our next panel.

So if you will give us just a moment, we will move this panel away, and the members of the next panel will come forward. I am going to ask the persons who are assisting us with the name plates to do so quickly and bring out the new name plates, and we will move forward.

And if you can, friends, please stay. This is going to be an exciting panel. It will deal with banking, credit unions, and lending, some of the things that are important to you in terms of acquiring and accessing capital, credit, the things that can allow for homeownership, as well as small business development.

[brief recess]

Chairman GREEN. The Oversight and Investigations Subcommittee will again come to order.
This session is a continuation of the subcommittee's hearing begun this morning on, “Examining Discrimination and Other Barriers to Consumer Credit, Homeownership, and Financial Inclusion in Texas.”

Without objection, members of the local media who are invited to this hearing may engage in audio and visual coverage of the subcommittee’s proceedings. Such coverage is solely to educate, enlighten, and inform the general public on an accurate and impartial basis of the subcommittee’s operations and consideration of legislative issues, as well as developing an understanding and perspective on the U.S. House of Representatives and its role in our government. This coverage may not, N-O-T, be used for any partisan political campaign purpose or be made available for such purpose.

I will now present a brief statement, after which we will hear from witnesses that I will introduce.

From this morning’s panel, we heard compelling testimony about the depth and breadth of discrimination that regularly occurs against minority borrowers here in Houston and around the country.

We turn now to our second panel, which will speak to the experience of minority-owned banks and community development financial institutions that are working to be part of the solution to the discrimination that exists in the lending marketplace.

These institutions do vital work in underserved communities and make loans that other banks will not, according to a recent FDIC study. That is why it is important that we do all that we can at the Federal level to strengthen and boost minority-owned banks. The testimony of our next panel will help us to better understand how Federal laws and policies can do just that.

I would like to extend a warm welcome to each of the witnesses on the second panel. I am pleased to introduce you now. The first witness will be Noel Andres Poyo, executive director, National Association of Latino Community Asset Builders. The second witness will be Jeff Smith, president and CEO of Unity National Bank. The third witness will be Celina Pena, chief advancement officer, LiftFund. The fourth witness will be Gary Lindner, president and CEO of PeopleFund. And the final witness will be George Johnson, CEO, George E. Johnson Development.

I am also honored to recognize that our colleague from Michigan has joined us. She is the honorable colleague whom we visited in Michigan not so very long ago, when we had a field hearing there. The gentlelady from Michigan, Ms. Tlaib, is with us, and will be a part of the panel as well.

With that said, let us now proceed with our first witness. Mr. Poyo, you are now recognized for 5 minutes for your statement.

Mr. Poyo, you are now recognized for 5 minutes for your statement.
STATEMENT OF NOEL ANDRES POYO, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION FOR LATINO COMMUNITY ASSET BUILDERS (NALCAB)

Mr. POYO. Thank you for this opportunity to speak with you. My name is Noel Andres Poyo. I am the executive director of NALCAB, the National Association for Latino Community Asset Builders.

NALCAB is a national nonprofit organization, based in San Antonio, Texas. We have offices in Washington, D.C., and we are the hub of a network of more than 120 mission-driven organizations in 40 States and D.C., that build affordable housing, address gentrification, support small business growth, and provide financial counseling.

I want to thank you for bringing the business of Congress to the people here through a field hearing. It shows particular respect, especially for people who don’t have the resources to go and see your work in Congress, and I am deeply appreciative of it.

Earlier, you heard testimony on barriers to credit, affordable housing, and banking services, and I hope that my testimony helps to advance the discussion of solutions.

It is important to recognize that the future strength and competitiveness of the U.S. economy relies on achieving far broader financial inclusion. To illustrate the point, consider that Hispanics have fewer assets, lower income, and strikingly less access to credit and capital than non-Hispanic white populations. And yet, Hispanics are driving demographic growth in this State and in this country.

So, this is a pressing macroeconomic concern that a population that is driving our growth really has these gaps economically, right?

And this is the same reality for African Americans, and significant segments of the Asian Pacific American population. For many rural communities, there is the same gap. This is not a Latino thing. This is not a rural white thing. This is not an African-American thing. This is a future of the U.S. economy thing.

And I will say it again, the future strength and competitiveness of the United States of America relies on us achieving far broader financial inclusion. And we are all in this together. The good thing is that our communities, our diverse communities are a good investment.

Advancing financial inclusion requires two equally important things: fair access to capital and credit; and the capacity to use that capital and credit to build assets.

Some people in our economy have the good fortune of having relatively easy access to fair capital and credit. Those people buy homes and start businesses and build assets, and that is good for our economy.

Imagine how much better it would be for our economy if everyone shared in that privilege? It should be a highest priority of our domestic economic policy to open fair access to capital and credit for people who do not already have the privilege of that access.

One size does not fit all when it comes to effective solutions for expanding financial inclusion, and we need local and culturally relevant solutions. So, I want to focus particularly on the role of com-
munity development financial institutions (CDFIs) and minority depository institutions (MDIs).

CDFIs are certified by the Treasury Department. They are private financial institutions that deliver responsible, affordable financing to underserved communities. They include nonprofit loan funds, community development credit unions, some banks, and some venture capital organizations.

And minority depository institutions are banks that are controlled by Black Americans, Asian Americans, Hispanic Americans, and Native Americans. The FDIC recognizes approximately 150 MDIs. Some of those are also certified as CDFIs.

CDFIs and MDIs have a proven and prudent track record of investing in low- and moderate-income and minority communities and businesses, including through difficult economic times. CDFIs and MDIs make up a critical part of the ladder of economic inclusion in our country and provide realistic and responsible financing opportunities in our communities.

One of the requirements of certifying a CDFI is that they represent communities, so MDIs and CDFIs are a dramatic demonstration that representation in the boardroom matters. Imagine how far we could advance financial inclusion if the boardrooms of the Federal Reserve Banks of America or of our largest banks reflected our communities, as do CDFIs and MDIs?

I will also say that these are a very important validation of the Federal investments and efforts that have been made to strengthen CDFIs and MDIs, including investment in the CDFI-funded treasury and the efforts of the FDIC and other agencies to strengthen MDI banking partnerships.

While local and culturally relevant efforts through CDFIs and MDIs are critical solutions, it would be a mistake to lose focus on the larger macroeconomic and policy matters that profoundly shape opportunities for everyone in this country, but especially low- and moderate-income (LMI) populations, rural communities, minorities, and immigrants, on issues including monetary policy, trade and immigration policy, a strong and independent CFPB, GSE reform, and the Community Reinvestment Act.

I just want to say a word about monetary policy, in particular. We often think of monetary policy as set by the Federal Reserve in the context of the stock market or international finance, when, in fact, it is as consequential for low- and moderate-income people as it is for anybody in this country, and sometimes more so.

We need to be cognizant of the fact that rising rates can impact the ability of LMI workers to find employment. Similarly, we need to be worried that when the rates are too low, we may incentivize risk-taking that creates bubbles, such that when those bubbles pop, it is low-income people and people of color who most often are hurt first and worst.

We need more focus and research to understand the consequence of monetary policy for low-income people and for minorities in this country. And I will say that former Chair Yellen and Chairman Powell have made important strides in this regard. In a recent speech in Jackson Hole at the Economic Policy Symposium, Chairman Powell pointed to the disaggregated employment rate and the wage growth among LMI communities as a key sign of breadth and
depth of strength in the economy. We need our Federal Reserve looking at these disaggregated issues in LMI and minority communities.

I also will just say a word on the Community Reinvestment Act, which is critical infrastructure for capital flow to low- and moderate-income people in this country.

I want to encourage the Members to strongly exercise their oversight role, particularly with regard to the OCC’s efforts to modernize the CRA. We need CRA modernization that keeps the needs of low- and moderate-income people front and center. The go-it-alone approach that we have seen from the OCC, without the concurrence of the Federal Reserve or the FDIC, is of deep concern. And if something is passed, it will ultimately undermine the CRA because we will see inconsistent use of the CRA across different regulatory agencies, which then will drive the banking industry towards greater concern about the CRA.

Finally, just a word on the strong and independent Consumer Financial Protection Bureau (CFPB). A truly free and efficient market has clear rules of the road to prevent abuse. The CFPB plays a central role in placing reasonable limits on predatory activity that strips wealth from LMI communities, including such practices as payday lending, auto title lending, and abusive collections practices.

We should all be concerned by the actions taken by the current Administration to eliminate prudent financial safeguards on our consumer financial markets. On these issues, I now collaborate very closely with the Center for Responsible Lending, where I also serve as a board member.

Thank you for the opportunity to present my testimony.

[The prepared statement of Mr. Poyo can be found on page 77 of the appendix.]

Chairman GREEN. The Chair thanks you, Mr. Poyo, for your testimony.

And Mr. Smith, you are recognized for 5 minutes.

STATEMENT OF JEFF SMITH, PRESIDENT AND CEO, UNITY NATIONAL BANK

Mr. SMITH. Chairman Green, Chairman Cleaver, Chairman Meeks, and members of the committee, good afternoon, and thank you for the opportunity to speak on behalf of the minority depositary institutions (MDIs) like 56-year-old Unity National Bank. Unity is the only African American-owned bank in Texas.

First, I would like to say that the number of MDIs has been declining for so long that data strongly suggests if this trend is not reversed, there will be no more African American-owned banks in the country.

CRA plays an important part in this. In my opinion, the time to act is now. You see, MDIs do not have the same access to capital that other big banks have. The issues are complex, and the suggestion that MDI banks have been poorly run is false. Rather, it is because of the high cost associated with providing the banking services and products to the low- to-moderate-income areas and the unbanked.
To illustrate my point, Unity National Bank is a $104 million bank with over 11,000 customers. My previous bank, Houston Community Bank, was a $310 million bank with 6 branches, twice the number of branches that Unity has, and 3 times larger than Unity. But Houston Community Bank only had 5,400 customers. This was a bank that was making $4.9 million a year in profit.

Even a billion-dollar bank in Houston, Texas, today is likely to have 10,000 customers or less. Unity’s operational costs are many times greater, and thus, across banking lines, whether you are talking about IT costs, customer service, operational, or administrative costs, are 3 to 5 times that of banks that are 10 times larger than Unity.

CRA has a role to play here. The flexibility of CRA can be its strength, but also its main weakness. Larger banks want to comply with CRA because they have to, but they want to do it as minimally as possible. They are charged to be profitable to their shareholders. So as a result, we end up with low-hanging fruit.

In my entire 40-plus years, I have been president, or president and CEO for the past 20 years at the State and national level. I know what goes on with the CRA regulations in the boardrooms and in the executive suite. I know how to navigate the regulations, and I see my brethren doing it today.

The low-hanging fruit opportunities will always be the ones picked, whether that includes a $249,000 deposit, which is a liability to the MDI, or a legal-limit participation loan with a prime rate, or mentoring. These are all easy for the big banks. They have little expense associated with them. And what I think we need to do is to incentivize the big banks to do more and to consider other ways to utilize the CRA.

More meaningful examples of how to help the MDIs would include specific CRA credits to a big bank by purchasing the preferred stock of the MDI. This additional capital could be used to grow the asset size of the MDI, expand products and services, and assist in specific programs designed by the MDI to help its customers break away from high-interest payday loans, non-bank small business loans, and check-cashing fees. The big banks would carry the MDI-preferred shares as an asset on their balance sheet, and it is even possible that the preferred shares would pay a dividend.

Let me close by saying MDIs are not looking for a handout, but rather, a hand-up. It is the MDIs who are the ones that are banking the LMIs, while taking on the brunt of all of the cost.

But this is not a one-way street. This type of meaningful collaboration and partnership between the banks could result in a valueship proposition for both banks. MDIs can assist bigger banks in growing and understanding the robust market that the LMIs could offer.

Thank you for your time, and I look forward to answering any questions you may have.

[The prepared statement of Mr. Smith can be found on page 86 of the appendix.]
Ms. PENA. Thank you, Chairman Green, and thank you to the subcommittee for hosting us today.

Good morning. My name is Celina Pena. I am the chief advancement officer at LiftFund, a Texas-based community development financial institution serving 14 States in the South Central United States.

Since 1994, our mission has been to level the financial playing field for entrepreneurs. During our 25 years, we have provided over $300 million in capital to over 20,000 entrepreneurs. In the greater Houston region, we have provided $54 million to 3,000 small business owners.

Our direct business loans range from $500 to $500,000. We are also a partner with SBA on all of their small business lending products, including the SBA 504, the SBA 7(a), Community Advantage, and the SBA Microloan program.

We also partner with institutions to provide a pathway to financial inclusion. I am taking some liberty to share some examples as it relates to our organization and partnerships.

Our first relationship is with Woodforest National Bank, headquartered here in the Woodlands. They actually purchase the fund-generated loans. They have purchased a total of $9 million in loans over the past 2 years, with an average of $13,000 a loan. LiftFund provides the loan to the client, Woodforest purchases the loans, as it demonstrates the criteria of service and impact per CRA, and LiftFund also continues to service the loan. We believe this is a win-win, as it relates to serving, obviously, the populations that we think are deserving.

We also partner with CNote. It is a California-based B corporation, and it is a unique online investment platform that focuses on social impact investing. LiftFund currently has $4.7 million in investment that started this year dedicated to serving minorities and women-of-color entrepreneurs. CNote is a woman-owned firm, and it is creating a space where investments can be made that create inclusivity with capital while providing a modest return on investment.

We pride ourselves on successfully serving those traditionally left out of the economic mainstream: 38 percent of our borrowers are women; 85 percent are entrepreneurs of color; and over 36 percent are startups with less than 2 years in business.

As we are in the midst of hurricane season, I would be remiss if I didn’t bring up our commitment to disaster recovery. LiftFund clients and businesses along the Gulf Coast impacted by Hurricane Harvey have been served by our disaster relief loan program, thanks to investments by Goldman Sachs and JPMorgan Chase.

Along with those two banks, Rebuild Texas and the OneStar Foundation provided operational funding and a guarantee fund as well. Together, we have provided over $7 million in capital to 322 small businesses impacted by Harvey that did not qualify for SBA loans.

The U.S. Economic Development Administration is also helping us continue this effort with a $3.5 million investment to continue the efforts into the second phase of rebuild.
These next items are LiftFund’s approach to improving our business model to ensure we sustainably provide products and services that bring financial inclusion. Our work requires us to raise debt to provide our financial solutions. That is the community loan fund model.

To change this model, we have created the Dream Makers Fund, a permanent revolving loan fund where local donors and investors can provide equity into a local fund dedicated to serving the underbanked. Our goal is to create this fund and provide affordable capital in cities like Houston, San Antonio, and Dallas. This solution will reduce LiftFund's balance sheet challenges and meet the demand in providing capital to, and leveling the financial playing field for, the populations we serve.

One of our biggest successes is our investment technology. LiftFund has created an internal micro-business risk model. You have heard of big data. Well, our risk model specifically focuses on serving underbanked entrepreneurs in the U.S., and we have a 96-percent repayment rate when we couple this risk model with our underwriting.

Now more than ever, financial inclusion in Texas and the U.S. requires steadfast investment and participation at the local, regional, and national level.

Finally, I should point out that none of this would have happened without the framework of CRA. In addition to the partnerships reflected, LiftFund currently has 36 bank investments totaling $35 million. Your important oversight ensures a CRA policy that is transparent, accountable, and mindful of the continued disparities of accessing credit.

Without the CRA, the National Community Reinvestment Coalition (NCRC) estimates that low- to moderate-income neighborhoods would lose up to $105 billion in home and small business lending nationally, including a $24 billion loss in CRA commitments in the States that LiftFund serves.

I hope the insights provided today give you a better perspective on how partnerships, CDFIs, and the CRA are vital to financial inclusion.

Thank you for your time.

[The prepared statement of Ms. Pena can be found on page 73 of the appendix.]

Chairman Green. Thank you for your testimony, Ms. Pena.

Mr. Lindner, you are now recognized for 5 minutes.

STATEMENT OF GARY LINDNER, PRESIDENT AND CEO, PEOPLEFUND

Mr. Lindner. Thank you so much for the time to share our experience with you this morning.

Small businesses are the economic hub that keeps the City of Houston, the State of Texas, and the entire nation moving. According to the Small Business Administration (SBA), last year, small businesses accounted for 66 percent of all new jobs in the country.

In Texas, small businesses represent 90 percent of businesses in the State, but access to affordable capital and the tools to grow remain a critical challenge. In 2018, the Kauffman Foundation re-
leased a report stating that 81 percent of entrepreneurs cannot access a bank loan or venture capital.

The barriers for entry for the diverse and low-income small business owners are mounting. Large banks continue to expand, while small and medium community banks shrink and underwriting criteria tightens. Since 2008, the number of banks with assets under $50 million has declined 41 percent, and large banks simply cannot make a profit on small, risky loans.

Community development financial institutions (CDFIs) like PeopleFund were created to bridge the void between the banking sector and a business in need. Mission-driven and committed to underserved populations, CDFIs help startups, low-income, and minority borrowers by extending capital and wrapping funds with tailored financial education and technical assistance and guiding them on a journey to prosperity.

At PeopleFund, we have a minority-majority staff and a minority-majority board, and that is to ensure our programs, products, and services are responsive to client needs and that everyone has a voice at the table. Our target market is minorities, women, veterans, and those in low- to moderate-income census tracts. Ninety-seven percent of our loans go to our target market, greater than 65 percent to minorities, greater than 50 percent to startups, and greater than 50 percent to women business owners.

We also are very inclusive. We have loans to ex-offenders and to the LGBT community at a significant level.

PeopleFund was founded as a nonprofit 25 years ago, and became a U.S. CDFI later on. We have all SBA products like LiftFund, $50,000 on the microloans, $250,000 on Community Advantage, and 504s up to $5 million.

We also have been very successful in competing for new markets tax credits. It is our experience that right now, only two CDFIs in Texas have earned new markets tax credits, and that is PeopleFund and Texas Mezzanine Fund in Dallas. These projects are really important because they go to nonprofit projects and census tracts to provide essential services and create jobs. We have received over $100 million in new markets tax credit, and $28.6 million has gone to 4 significant projects in Houston.

PeopleFund is the leader in veteran lending with financial support from two national banks. PeopleFund began a national program to provide veteran business owners and spouses with single-digit interest rate loans. Currently, 12 CDFIs have joined, and we cover 20 States and 60 percent of the veteran population.

Although certified by the U.S. Treasury Department and the SBA, CDFIs are not subject to the same regulatory oversight as banks, however, we remain accountable to the 48 organizations that provide us with low-cost capital.

We have greater latitude in our lending practices, and we can be agile to fill the gaps that arise. For example, in the wake of Hurricane Harvey, 90 of our clients with loans from PeopleFund sustained severe damage. In response, PeopleFund made a conscious decision that, under the circumstances, we would make loan payments for them with our capital for a period of 6 months.
That was a game-changer, and I am happy to report that after that time, 88 of them are still in business; one of them passed away, and one of them made the mistake of leaving Texas.

One other thing that I think is really important is that we are collaborative. We work with LiftFund. We work with all of the CDFIs in the country. And we think that is important from a collaborative standpoint. We work together on build projects, whether for people of color, for minorities, or any other segment of the population.

Despite the fact that none of the businesses that we lend to qualify for a bank loan, we also lend to people with an Individual Taxpayer Identification number (ITIN), in this country. The 2018 default rate, despite our risky loans, has been less than 1 percent, and I attribute that to the education and training and the work we do as partnerships with our clients.

Small businesses have the power to elevate communities, bring in critical goods, and spur future development, thus ensuring future generations have access to capital. CDFIs are the point of entry to spark this change.

Thank you very much.

[The prepared statement of Mr. Lindner can be found on page 70 of the appendix.]

Chairman GREEN. Thank you, Mr. Lindner, for your testimony. We will now recognize Mr. Johnson for 5 minutes.

STATEMENT OF GEORGE JOHNSON, CEO, GEORGE E. JOHNSON DEVELOPMENT

Mr. JOHNSON. I want to thank you, Chairman Green, and your subcommittee for bringing this hearing here to Houston.

I don't think that there is any doubt that discriminatory financial practices exist in minority communities, making it difficult to access capital for both homeowners and business owners in the creation and expansion of their businesses.

The wealth gap continues to grow as homeownership declines from a high of approximately 57 percent to currently 47 percent. In addition, minority businesses continue to struggle for much-needed capital for creation, acquisition, and growth.

Major banks, for the most part, do not place bank branches in minority areas, nor do they actively offer borrowing opportunities to minority businesses. I believe one of the potential solutions promoting financial inclusion and to strengthen minority communities is through the partnership of major banks with minority-owned banks operated and located in minority communities to provide those banks with additional capital to operate.

Another potential solution to promote financial inclusion is to increase funding to community development financial institutions (CDFIs). About 3 years ago, I received the opportunity to serve on a CDFI, on the board of directors for Houston Business Development Inc. (HBDi), a CDFI nonprofit 501(c)(3) corporation established to stimulate economic growth. I was familiar with HBDi, however, I did not fully understand the number of ways the organization was serving the community, including training and education programs for small business owners.
Under this particular CDFI, under the leadership of Mr. Marlon Mitchell, who is the CEO, and Mr. Larry Hawkins, who was the chairman of the board, HBDi started a program of buying abandoned and rundown properties in and around the Palm Center area, which is located in Southeast Houston, and tearing these buildings down and rebuilding commercial and residential sites. This effort is playing an important role in revitalizing this Houston corridor.

Additionally, HBDi, as a U.S. Treasury-certified lender, extends loans to small businesses. And since its inception 33 years ago, HBDi has facilitated over $98 million in small business loans and assisted thousands of aspiring entrepreneurs and business owners with accessibility or access to affordable capital and management assistance not readily available from banks and conventional lenders.

This particular CDFI has also successfully administered several government-funded, non-bank loan programs designed to expand the capacity of small and minority business enterprises operated in low-income communities.

Additionally, the corporation also operates an SBA-certified development company making SBA 504 loans up to $5.5 million throughout the State of Texas. The loan committee, which consists of professional current and former business owners, utilizes the same basic business prudence that other banks do, but the CDFIs have the opportunity to dig deeper and to make loans that typically banks—and national banks, in particular—would not make.

Currently, this particular CDFI, Houston Business Development, Inc., serves approximately 5.5 in loans representing over 300 borrowers. The lowest loan is $3,000. The highest loan is in excess of $400,000.

Because CDFIs have more latitude in reviewing community business and their needs, we feel that the increased capitalization of these proven organizations can make a huge difference in the creation and capitalization of businesses in a minority community.

Chairman GREEN. Thank you for your testimony, Mr. Johnson.

Please allow me to introduce now Mr. Raymond Ardoin, president of the board of directors of the Brentwood Baptist Church Federal Credit Union.

And we assure you that you arrived quite timely. We accelerated the program. So, thank you for coming, and we greatly appreciate hearing from you at this time. You are now recognized for 5 minutes.

STATEMENT OF RAYMOND ARDOIN, PRESIDENT, BOARD OF DIRECTORS, BRENTWOOD BAPTIST CHURCH FEDERAL CREDIT UNION

Mr. ARDOIN. Good afternoon. And thank you for the opportunity to testify today on this very important subject.

My name is Raymond Ardoin, and I am the board chairman of the Brentwood Baptist Church Federal Credit Union here in Houston. We are a small credit union currently with 833 members, which was formed in 1992 by our church, Brentwood Baptist Church, and we are a low-income-designated credit union.
We currently have total assets of $1.2 million. We have not entered the real estate and mortgage lending business, but we do offer automobile financing, share secured loans, signature loans, and secured debit cards to our members.

Our credit union was formed to provide the availability of financial services to our church members. At that time, in 1992, most members had proximity to a financial institution near their jobs, but there was no particular institutional loyalty, and most members complained about the cold, impersonal, and insensitive way that they were treated at banks.

Our credit union worked diligently to provide our members with a fair and convenient place to save and borrow money. And although we do not currently handle real estate and mortgage loans, we know that the basic rules of credit extension are involved in all types of lending.

Equal access to mortgage credit for minorities remains a serious issue. The Fair Housing Act makes it unlawful to discriminate in the rental or sale of housing or to impose different terms and conditions of a transaction based on race, color, religion, national origin, and gender.

To avoid mortgage discrimination, minority borrowers should shop multiple lenders. Not only will that help you to find the best mortgage interest rate, but it could also identify lenders that are discriminating with higher rates or a lack of access to capital.

If lending discrimination is suspected, the following are several other potential solutions that one should consider doing. First, contact the lender and enter a complaint. Contact their State attorney general’s office and report it. Consider retaining a local attorney. File a complaint with the Consumer Financial Protection Bureau and the Department of Housing and Urban Development. Research and read reviews in an effort to find a better lender.

One should also check that their chosen lender is committed to Federal anti-discrimination laws. Most good lenders announce this in the disclosures section of their website.

Fortunately, although many of the banks in the U.S. have exhibited discriminatory tendencies, many minorities are finding success online banks, where they find the color of their skin is less of an issue.

Like many community banks, MDIs face difficulty accessing capital markets and competition from larger banks. In the aftermath of the most recent financial crisis, despite moderate improvements in earnings and capital levels, MDIs continue to struggle with compressed net earnings. In many cases, compounding MDI challenges are effects of economic hardships on MDI customers, many of whom reside in low- or moderate-income communities.

In 2013, the Federal Reserve reaffirmed its commitment to MDIs in its Consumer Affairs Letter, “Federal Reserve Resources for Minority Depository Institutions.” This letter also discusses technical assistance that is available to MDIs through the Federal Reserve’s Partnership for Progress Program, a national outreach effort to help MDIs confront unique business model challenges, cultivate safe banking practices, and compete more effectively in the marketplace.

This concludes my testimony. Thank you.
Chairman GREEN. You have one additional minute.

Mr. ARDOIN. Well, I am all done with the—

[laughter]

Chairman GREEN. Thank you for yielding back your time.

The Chair will now recognize Members, and each Member will have 5 minutes to ask questions.

Ms. Tlaib, the gentlewoman from Michigan, is now recognized for 5 minutes.

Ms. TLAIB. Thank you so much, Chairman Green, and thank you all so much for being here to talk about something that I think is incredibly important in our country.

I know in my district, in the 13th Congressional District, we have lost more Black homeownership than anywhere in the country. So, this is an incredibly important issue.

The Community Reinvestment Act came up at our field hearing in the City of Detroit as well. Just yes or no, do you think CRA is working now?

Mr. POYO. Yes, absolutely.

Ms. TLAIB. You think CRA is working?

Mr. POYO. CRA is working for our communities.

Ms. TLAIB. Yes?

Mr. SMITH. I think the strength of CRA is its flexibility, and I think it is also the weakness of CRA. So, I think it could be improved from where it is today.

Ms. TLAIB. I am going to follow up with you on that, Mr. Smith, in a minute. Yes?

Mr. JOHNSON. It could work better. It could be improved.

Ms. TLAIB. Okay. So many people I have been talking to kind of on a frontline who do similar work in Michigan to what you all do, have talked about this idea around teeth. I think, Mr. Smith, you mentioned trying to incentivize big banks to do so?

And CRA, to me, it is like getting that A grade that you are looking for, right? That is what they want to seek out. Now, it has become somewhat of a checklist. And some, you are like, why did they get a CRA credit, and they shouldn’t have?

So what I am trying to figure out is—and maybe you can answer, anybody on the panel—where do we fall short? Because some banks are—maybe on paper, it seems like they are following through on some CRA commitments that maybe require them to work with many of you on this panel, but where do you think they really do fall—where do you think it does fall short?

Because in practice, it seems like our families are not—it is not increasing access to our families. Maybe a handful, but not as much as it used to. Mr. Smith?

Mr. SMITH. In my experience, in 20 years in the C-suite, it is pretty easy to invoke CRA regulations to say, well, if I did this, it is a safety and soundness concern for my bank. And all of a sudden, the regulators’ ears perk up, and they say, “Oh, well, we don’t want you to do anything. That is a safety and soundness concern.”

So I can’t really do this investment, but I can send 10 employees to do a weekend cleanup at the local neighborhood. And, “Oh, well, okay. Well, that will be CRA credit.”
I can substitute very easily the way it is written now with what I call low-hanging fruit, rather than the higher-hanging fruit that has more meat for the MDIs.

Ms. TLAIB. We call that sustainability. We don’t want trinkets. We want sustainability.

Does anybody else want to add anything? Yes, Mr. Lindner?

Mr. LINDNER. Yes. Where it does work is we get an incredible amount of low-cost capital, around 2 percent, that we can relend. And that comes from large banks that are trying to get CRA credit. So we help them by lending to those whom they cannot lend to, and that is—

Ms. TLAIB. Okay.

Mr. LINDNER. Now what I would also say is the net is not wide enough to capture some other banks that could potentially be supportive of low-cost capital for CDFIs.

Ms. TLAIB. And if I may, Mr. Chairman, if I have a few more minutes—I am not sure—but I would like to ask all of you—this is something that has been on my mind and has been very disturbing recently.

The Department of Housing and Urban Development announced it would rescind enforcement of the 2013 disparate impact rule, a standard which is so central to the framework of the Fair Housing Act, which really ensures families are treated fairly with no discrimination when trying to secure housing and housing-related activities and services.

Many of you, probably within your agencies, within your banking institutions, have folks who work on these specific issues around access, not just the lending. But can you talk a little bit about what this would do to your work on the ground when we can—and this is the only place—by the way, the Civil Rights Act has been watered down by the courts left and right. We now have to show a threshold, a higher threshold of intentional discrimination versus disparate impact. And we are going to try to restore that. I hope all of my colleagues support my bill when I introduce the Justice for All Civil Rights Act.

But in this instance, them trying to do it in the regulations in this way, how is that going to impact your work? What do you think this would do to the people you serve?

Mr. POYO. This is a deeply problematic development. No one gives you a certified copy telling you that they have discriminated against you. And so many, many fair housing arguments and other civil rights arguments have to be made on the basis of what the impact is.

For example, if you choose not to give mortgages on houses with a certain width, and it happens that all of the houses with that width are in a certain neighborhood in the city, you can say we have discriminated against no one because all we are talking about is the width of a house, when, in fact, all of the people who potentially want to buy that house, or a large portion of them, are of a given race.

So gutting the disparate impact rules will, in effect, take the teeth out of our fair housing work in this country.

Chairman GREEN. The gentlewoman yields back.
The Chair now recognizes the gentlewoman from Texas, Ms. Garcia, for 5 minutes.

Ms. GARCIA OF TEXAS. Thank you, Mr. Chairman.

I wanted to start with Ms. Pena in sort of a follow-up question to my colleague's questions about the CRA.

As a representative of a CDFI, how can the CRA be improved? I notice you said it was working. A couple of people said it needs improvement. But specifically to get them to focus on investments in communities of color, particularly when it comes to economic development?

Ms. PENA. Sure thing. So one of the things in terms—there are several things. But the first would be that, as Gary mentioned, just expanding the network and looking at what assets are required to participate in CRA and thinking of that approach.

Another area that, as you all know, is evolving is just online lending, and so we have a whole new arena of lending online. So, thinking about how they should be participating in oversight is also something—

Ms. GARCIA OF TEXAS. Tell me what you think. What do you advise us? They should be complying just like banks?

Ms. PENA. I think that there is probably more investigation and thought that needs to go into it. But I do believe that, based on our experience and what we have done in refinancing some of these deals, that there should be some consideration of fair lending opportunities to specifically address financial inclusion.

I think that in terms of where we have seen the biggest challenge for folks who enter into merchant service accounts or do quick online loans is that there is a high interest rate, and it tends to be asset-stripping.

Another element, as you all know, as native Texans, is just predatory lending in general, and that is not addressed through CRA, but we see that as a challenge as well.

As it relates to CRA, in terms of sustainability, we think that the SBA 7(a) guarantee program provides a model where, if there were more guarantee programs, potentially, you would see more capital flow in allowing an organization like LiftFund to provide more capital with the purchases on the secondary market.

I know there was a reference earlier to secondary market purchases from a home perspective. But the Woodforest example that I gave, the average loan size is $13,000. And so really thinking about, how do we approach in a way that allows us, as CDFIs who know our client base and provide more than just capital, but empathy, guidance, really a hand in a journeying experience for folks, so that more banks would invest in us. So I think looking at guarantee programs is another solution for us to really open up more capital to the clients that we serve.

Ms. GARCIA OF TEXAS. When did you start your partnership with Woodforest?

Ms. PENA. That has been in place now for 3½ years.

Ms. GARCIA OF TEXAS. Okay. And the total number of loans that they applied for from you is 650 during that whole time period?

Ms. PENA. Yes, ma'am.

Ms. GARCIA OF TEXAS. Do you have partnerships like that with other banks?
Ms. PENA. We had a previous one with Citibank that we had launched in 2010. Their footprint has evolved, as you all know, and they do not serve Texas anymore.

Ms. GARCIA OF TEXAS. Okay. One last question for you. You say in your written testimony that the CRA’s policy—that we need one that is transparent, accountable, and reflective of the continued disparities of accessing credit.

What specific recommendations do you have for the committee?

Ms. PENA. The first one would be specifically to expand, as it relates to including more banks with a bigger asset base. The second is in terms of—and we actually submitted a letter to the OCC specifically about addressing the variances of that checklist that you were talking about to ensure that there is weight and real complexity and not just an effort to be present within the community.

So, those are the three recommendations we actually had put into our letter to the OCC.

Ms. GARCIA OF TEXAS. Okay. Thank you.

Mr. Chairman, if I can just have one last question to Mr. Poyo, please?

Mr. Poyo, you talked in your remarks and in your paper about barriers for the limited English proficiency customer. Could you expand more on that, and what we can do ensure that that data is collected and that it is reported and that we really fully address it?

Mr. POYO. Absolutely. One, it is, I think, incredibly important to think about limited-English-proficient communities as a market that should be served, not people whom we need to serve charitably.

Certainly, in the efforts we have made to translate documents, in particular into Spanish, we have made a lot of progress. I think we need a lot more progress with regard to Asian languages, and many languages of African origin, Arabic and Farsi.

But we need to go beyond just thinking about translation and looking at hiring in institutions that are delivering services and making sure that bilingual, bicultural people are out there across whatever industry you are looking at.

And then, regulatory enforcement in other languages. For example, with the CFPB, when you look at the rules that are enforced and then you go to the Spanish language market, you don’t see any enforcement in that language. And that is challenging, I grant, and yet there are millions and millions of people operating only in Spanish who deserve the protection of those regulations.

And so I think we have to get beyond thinking only about translation as our solution and get to hiring and enforcement activities across multiple languages.

Ms. GARCIA OF TEXAS. All right, thank you. I yield back. Thank you, Mr. Chairman.

Chairman GREEN. Thank you.

The Chair now recognizes the Chair of our Subcommittee on Consumer Protection and Financial Institutions, Mr. Meeks, the gentleman from New York.

Mr. MEEKS. Thank you, Mr. Chairman.
Let me start with Mr. Poyo. As Chair of the Consumer Protection and Financial Institutions Subcommittee, we had a hearing not too long ago, and we discussed at length the seriousness of the concerns that I think you talked about in your testimony, and that is the OCC go-alone position, as opposed to working with the Fed and the FDIC.

The Fed appears to have taken a more thoughtful approach, in my opinion, and we have consistently encouraged all three regulators, including the FDIC, to coordinate their efforts and for them to move in lockstep.

You discussed the risk of the OCC’s approach. Can you also tell us key factors that you think we should consider in modernizing CRA, including non-bank financial institutions, fintechs, and the branch loophole?

Mr. Poyo. Yes, sir. Absolutely, we have this concern about the OCC moving without—and particularly the Federal Reserve. I think you are absolutely correct. The Federal Reserve has had a 10-year process of examining updates to the CRA, which has been careful and gotten lots of input. And the OCC’s approach in many ways, I think, began by disregarding those many years of effort at the Fed. And so, I think we should be looking to the Fed to take leadership on this.

Some of the early statements by the Comptroller of the Currency about his intent with regard to CRA when he was first confirmed, he has not been repeating them lately, but we are very concerned about where that started.

But I think that we need to look at a couple of key issues. You mentioned fintechs. And both with regard to CRA and with regard to fair lending practices, just because you use an algorithm to discriminate doesn’t mean you are not discriminating, right? And so the same laws—if we are doing banking, if we are doing investment, and we have laws that cover the banks and create a level playing field among banks, we cannot allow the legs to be taken out from under institutions that are regulated by organizations that are going out and doing things like, for example, rating whether someone should be lent to based on their social network. Right? These are things that are deeply concerning, and because it is a new technology doesn’t mean that new kinds of discrimination should be things that we are okay with.

I also suggest that expanding the applicability of CRA helps to broaden that level playing field. I think regulated banks have a legitimate concern when they say, well, there are people doing mortgages and there are people doing—large credit unions that are doing the same business we are, and yet they are not covered. Fair enough. Let’s bring everybody into the fold and cover financial institutions that are competing with regulated institutions, and the mortgage market in particular, into having a CRA obligation.

Mr. Meeks. Thank you.

Mr. Smith, I have been working on some legislation to promote minority banks, which have been disappearing at an alarming rate in my district. In fact, we have banking deserts that are there.

And a few areas I have been paying particular attention to include the creation of programs for the Federal Government to deposit funds with minority-owned banks, creating initiatives for
large banks to avail their technology platforms to minority banks, and holding bank regulators accountable for the lack of diversity of the bank examiner coops.

Can you please speak in regards to those items, those issues, and any other areas that you consider critical to help promote minority banks?

Mr. SMITH. Yes, sir. I think all of them are critical. I think the work that you have been doing is spot-on, as far as what we need at our level.

I would say that there seems to be a new momentum for capital investment, not just in preferred shares, if you were to purchase that, but in other investments that could be made to help the MDIs.

But I think the CRA regulations have to be defined more specifically in areas of assisting MDIs. It is not the only thing that CRA is talking about, but that section that deals with MDIs and credits needs to be specific and more detailed.

In addition to their involvement in us, we have things that we need the big banks' help on that are our loans. I will give you a great example. There is an Invest Atlanta right now, that the City of Atlanta is looking at some $40 million. They want to have, as part of their regulation, a minority bank to be the lead. They understand that the minority bank can't do it all. So, I have to have a big bank partner in order to participate in this Invest Atlanta.

It's the same thing in Houston, and he same thing in other cities where we are. If we want to participate in a larger program that is maybe government- or city-based, I need a big bank to be a partner with me, and we can bring them in and share that.

Mr. MEEKS. My other question would be, I have found in certain communities where you don't have access to banking or banking services, this is where the payday loans come in. This is where the pawn shops come in. What could we do? What kind of legislation? What do you think that we could do as Members of Congress to help the small minority bank, the bank that is in the community, to put these payday loaners out of business by getting folks back into regular banking? What do you think that we could do? What are we missing to make that happen?

Mr. SMITH. I think it goes back to the regulations. In other words, let's incentivize the big banks to give us programs that we can deploy—they don't have the means to deploy, but we can deploy in our neighborhoods, city block after city block, the Community Reinvestment Act on the street where the rubber hits the road. We can have it in community meetings. We can get the word out through our customers in a mailout. We can get the word out to our prospects by advertising in the paper that we have a loan program that is designed to take out the payday loan, for instance.

But that program has to be backed by dollars. That program has to be backed by meaningful participation with a larger institution that would help do that. This is just one example. You could go on and on, whether it is car title loans, whether it is non-bank small business loans. These are at 18 percent. It is choking the business itself out of existence.
Mr. MEEKS. And if I have time, Mr. Johnson, I would like to ask you—yesterday, we had the opportunity to see the extraordinary work of you and your development company and how you have turned it around to make a difference.

I think that you indicated that to a large extent, that you have done so without the aid of HUD or Federal dollars, is that correct?

Mr. JOHNSON. In most of the developments that we have done in Corinthian Pointe, we did it without the aid of Federal dollars. We did have Federal dollars in the independent living facility. We had a grant through HOME funds through the City of Houston for $3.4 million to go with a mortgage loan from Trustmark Bank for $6 million to develop that particular site.

Mr. MEEKS. So the individual who has a business like you—because I know a number. I know in New York, there are very few African-American developers who have equity in the land and are able to build. And many of them come to me, and they say they lack access to capital so they can grow and develop.

What would you recommend be done so we can create more developers, such as you, and entrepreneurs who are hiring folks and making a difference in people’s lives?

Mr. JOHNSON. Capital is extremely important in real estate development across-the-board. Listening to all of the various organizations, major banks, when we were doing the project for the non-profit in Corinthian Pointe, most of those loans were made through the major banks. We could not utilize the smaller banks for that.

And that is why, one of the reasons that I mentioned that. And I continue to hear from these gentlemen there is just a tremendous need for capital. The smaller banks need more capital. In order to do most of these deals, we have had to go to Chase, to Wells Fargo, to Amegy Banks for these types of loans. When we go to the smaller banks, the capital is just not available.

Chairman GREEN. The gentleman yields back.

At this time, the Chair will recognize the gentleman from Missouri, Mr. Cleaver, who is also the Chair of our Subcommittee on National Security, International Development, and Monetary Policy.

Mr. CLEAVER. Thank you, Mr. Chairman.

A number of you have at least touched a little on this issue. I represent Missouri. I always like to tell people I represent Missouri because they will ask me how are things in Kansas, and I haven’t been there in months.

But one of the concerns I have is that we have an agricultural component to our economy that depends on $80 billion of Missouri products being sold around the world, the most significant of which, in terms of revenue, is soybeans.

The tariffs are wreaking havoc all through the State of Missouri, whether you are eating soybeans or not. And we just had an announcement yesterday concerning one of our large companies, with probably 25,000 people across the globe working for them, and they just announced a big layoff in Kansas City. And of course, that is the home office, so I am nervous about what can happen. And we just ended the longest—well, maybe not ended, but we are experiencing the longest economic expansion in U.S. history.
I am wondering what you believe—and I am interested, seriously—the Fed can and should do at a time like this, understanding that one of the mandates is, of course, making sure that employment remains steady, and how can that happen if we are beginning to see layoffs happen around the country?

And so I thought maybe I could raise this issue to the intelligentsia, and then I can tell the Chairman of the Fed what he should do. Thank you.

Mr. Poyo. Thank you, Congressman.

You bring up an incredibly important issue that is obviously particularly relevant here in Texas, and for low- and moderate-income people.

This Administration’s erratic approach to trade and immigration policy has created some really significant headwinds, and we are seeing that. I will point you to a recent interview that was done with the president of the Federal Reserve Bank of Dallas at Jackson Hole, where he was asked about these issues.

And in his words, he talked about how the trade and immigration policy are right now the fulcrum of the economy. It is what it is going to turn on, right, and we are seeing that happen.

And his concern stated was that monetary policy is not going to be enough, one way or another, to overcome that. As they say, the headwinds created by a very strong trade and immigration policy heading in one direction, monetary policy can’t solve everything, right?

So, fiscal policy and trade policy simply just can’t be outbalanced. And so, as we see the Fed right now I think trying to make some decisions about what to do with monetary policy, I think it would be problematic for us to expect that the Fed is just going to sort of balance us out of this situation. The core policies that we are seeing in trade and immigration are causing a huge problem in our economy right now.

Mr. Cleaver. If we are trying to fight it from a government point of view, for example, the President decided to provide a $12 billion package to farmers who were wiped out last year. Now, for this year, it is $16 billion, which is, of course, what, $38 billion added to the deficit.

So, even when you try to help the problem that you created—editorial comment, I apologize, but the President did create this—and then spend $38 billion to try to soften what he created.

The President is demanding that the Federal Reserve reduce interest rates right now, and he is demanding all kinds of things. What you just said created some heartburn, but I appreciate your candor.

And if anybody else would like to address this? Yes, ma’am?

Ms. Pena. I would just add, and not necessarily from the Federal Reserve perspective, but thinking of the evolution of workforce development as it relates to entrepreneurship, and one of the things that we, as all organizations, see—whether they are coming to access capital or asking for guidance—is this notion of, should we have layoffs, what is our strategy of workforce development, and does it include an element of entrepreneurship?

The gig economy continues to grow. It still has, obviously, its gaps from earnings perspective and asset-building. But can we, to-
gether and collectively, provide a pathway that allows workforce development, plus entrepreneurship, specifically as we see the evolution of people in tenured jobs as well?

Mr. CLEAVER. I kind of try to keep up on this, but there is no discernible strategy that I know about such that we can say, okay, this is what is happening today. But don’t worry, in 3 weeks, it will all be fixed, and we can be happy and sing “Kumbaya.” If you had the Chair of the Federal Reserve sitting right here, would you advise anything or ask anything?

Mr. POYO. Congressman, I didn’t mean to suggest earlier that there is nothing the Fed can do. I think that these tactical moves in interest rates downwards really can have substantive protection for low-income people who are being put in a very difficult position by the ups and downs in this economy.

But I, myself, have some real doubts about whether even a significant move in interest rates is going to overcome what we are seeing as a really hard-driven policy, which is having clear negative consequences, ironically as much for a farmer as for a low-income person of color in urban America.

We can help to kick the can down the road by doing debt subsidies, that maybe get somebody through to next year, but in the end, these are big levers that are being pulled.

And so I think the Fed Chairman is not in a position to really point at Congress and say, “Please do something about this,” or the President, but, indeed, I think that is probably what he thinks to himself at night.

Mr. CLEAVER. Well, some of it, I am sure we can’t control. The EU is almost fighting for its existence. And what happens to the European economy ultimately is going to—right now, we are so inextricably connected that what happens with Brexit will have an impact on us.

If you look at all of the things going on, this is a crisis. I don’t know how much time I don’t have left.

Chairman GREEN. The gentleman’s time has expired.

But the Chair announces that there will be a second round, and Members will have an opportunity to continue. I would suggest that, with unanimous consent, we can do so. Without objection, it is so ordered.

The Chair also asks unanimous consent that Mr. JP Park, president and chairman, Relationship BancShares, Inc., be allowed to give his testimony at this time. Without objection, we will hear from Mr. Park.

Mr. Park, you will have 5 minutes. I will sound this bell when you have completed 4 of your 5 minutes.
[Timer sounding.]

Thereafter, when you are at the end, I will give you the gavel.
[Gavel sounding.]

Mr. PARK. Yes, sir.

Chairman GREEN. You may proceed.
STATEMENT OF JEUNGHO “JP” PARK, PRESIDENT AND CHAIRMAN, RELATIONSHIP BANCSHARES, INC.

Mr. PARK. One of the potential solutions of the first panel issues is to increase numbers of minority depository institutions and the community development financial institutions.

Recently, the numbers of minority depository institutions and the community development financial institutions being disappeared by M&A are much bigger than the ones of minority depository institutions and the community development financial institutions newly being acquired.

Under this current situation, new start-up minority depository institutions or community development financial institutions critically experience difficulties raising initial funds covering capital and all other costs, et cetera.

However, in reality, new start-up MDIs and CDFIs are mostly excluded from investment companies and the banker’s bank to get some financial supports for initial forming stages. This means that there are many financial difficulties if forming groups do not have enough funds to cover by themselves.

In addition, some MDIs and CDFIs which are suddenly grown to a bigger scale by M&A tend to dominate minority banking markets and to deteriorate its environments.

How to resolve these issues of MDIs and CDFIs? It is to increase the numbers of MDIs and CDFIs to a certain degree which can be taken in current markets. To promote more numbers of MDIs and CDFIs, government should support how new start-up MDI and CDFI groups can have easier access to knocking on the doors of investment companies and the banker’s bank.

[The prepared statement of Mr. Park can be found on page 72 of the appendix.]

Chairman GREEN. The gentleman yields back his time.

The Chair will now recognize himself for 5 minutes. Thereafter, we will have a second round. And each Member will be given a liberal amount of time, I might add, for the second round.

Let me start with this premise. We have approximately—and I have just been given this information—92.5 percent of banks that are capitalized at less than $1 billion in assets, 92.5 percent.

I believe that this committee—and I speak for a good many persons, perhaps not all—would like to do something for the 92.5 percent that, as Chairman Meeks has indicated, did not have any impact on the financial crisis that we suffered in a negative way. They were not a part of the problem.

We would like to do something to help the 92.5 percent. However, whenever we try to extricate the 92.5 percent from the others, the 7-some percent, we run into a problem, because the larger institutions seem to be holding the smaller institutions as captives. And it is difficult to extricate them from the larger institutions. It is difficult to get them to go on record and make comments that would be, in their opinions, I am sure, adverse to their best interest because we have already promulgated laws, regulations, and rules that allow them to associate with the larger institutions to grow. So, they are in a very precarious circumstance. It is enigmatic, to say the very least.
So the question becomes, how do we deal with the smaller institutions—the 92.5 percent of all banks under $1 billion, how do we help them?

I have learned in my brief time in Congress that we can do almost anything we want if we can get 218 people to agree. When we had the financial crisis, we went out of our way to save the big banks. We went out of our way to lend them money. We went out of our way to almost give them money. We didn’t give it to them because they all repaid the money, and we made a profit. But we can do almost anything that we want.

So the question is, what do we want to do to help the smaller institutions that are becoming extinct? What do we do to help them? Especially the good number that we finally have left that are minority-owned, how do we help them?

Well, here is a thought. What if we, the Members of Congress, decided to establish a means by which a credible bank under $1 billion—a credible bank, with high ratings, no negatives, great with CRA, to the extent that a small bank can be great with CRA—what can we do to help them?

What if we decided that the government will lend them money the same way we bailed out the big banks? If we can bail out the big banks, why can’t we assist and aid the smaller banks who are suffering as a result of what occurred when we had the downturn in 2008?

There ought to be a means by which we can do for the small banks, who are suffering now through no fault of their own, what we did for the big banks who are part of this—not all of them. You won’t find one that will admit it—but not all of them who were a part of this downturn.

So, I am going to look into legislation. I can’t guarantee you that it will pass, but it is a part of my responsibility to be a part of the avant-garde with legislation, cutting-edge legislation. I am always living on the edge, it seems, and I don’t mind being there.

Let’s talk about this. Would it be beneficial, Mr. Park, to have the opportunity for these stellar banks that are small to acquire some of their assets by way of some loan or some grant maybe from the Federal Government? Your thoughts, please?

Mr. Park. Thank you, Chairman Green.

The testimony I just gave is exactly what I am facing, the situations. I got a new bank approval, and I need to close on buying the bank by next week. This is a totally minority target bank—95 percent of our customers will be Asian immigrants, first generation.

I have been in the banking service, in the Asian banking area for the last 18 years, and now I am trying to put in a new bank in Houston. But my difficulty is in capital-raising. Many people commit, but when they actually put money on the table, rather than what I expected, 20 percent, 30 percent, almost 40 percent, they cannot commit, they cannot put the money that they committed to.

And then, we knocked at an investment company. We knocked at a banker’s bank. I never experienced a banker’s bank other than this time, and so as long as our investors put in cash, 50 percent, a banker’s bank will help 50 percent. And all of those investors have good credit and strong financials, but actually, when we tried
to talk with them, the banker's bank said no, this is your new start-up bank.

And also, investment bank companies said, we do not want to look at that at this time because you are a startup. So what I want—and also the situation in the market, we both, U.S. Committee on Financial Services or Honorable Congressmen and women and also us, we better know what is going on in the market situations. As I pointed out in my testimony, recently, many bigger banks—

Chairman GREEN. Mr. Park, let me just intercede and say this, I am really interested in your comment on my comment about the ability to acquire some degree of assistance from the Federal Government.

Mr. PARK. Yes.

Chairman GREEN. Would that be beneficial, is the question?

Mr. PARK. Very beneficial.

Chairman GREEN. Okay. Now, let me move quickly to Mr. Smith.

Mr. Smith, you are the president of a small bank. Would it be of some benefit to you if the Federal Government provided some sort of aid and assistance to small banks with stellar records?

Mr. SMITH. Yes, Chairman, it would.

Chairman GREEN. And explain to me how you think such a system might work. Quickly, please.

Mr. SMITH. Okay. In an investment of $2 million, $5 million, whatever the number is, we could deploy that investment into growth strategies, into loan program strategies, into investment in new products and services to better assist the customer base, and probably give us some efficiencies of scale. There is just a lot of positives that could come from it.

Chairman GREEN. Thank you.

At this time, the Chair will yield back the balance of the time that I do not have and call upon Ms. Tlaib from Michigan for an additional round of questioning. And as I indicated, the Chair will be generous with the time.

Ms. Tlaib, you are now recognized.

Ms. TLAIB. Thank you so much, Mr. Chairman.

I was listening to all of you in regards to the Community Reinvestment Act, and everything. One of the things that, for me, is very, very clear, is that there is a huge racial wealth gap in our country.

And homeownership, as you know, is literally one of the primary ways that American families can really gain wealth. Small businesses, of course, are important, but if we can't get the homeownership rates up, it is just not going to work.

And when Mr. Smith and others are talking about incentivizing, I almost feel like we are trying to force them not to discriminate, right?

The Community Reinvestment Act didn't just come down from the sky. It came because there was redlining. And I feel like we are back there because we are not able to prove disparate impact.

We are not able to prove that some of the structural kind of racism that is currently under this Administration is looking at the CRA examination in a very different light, even probably before with people there who are, again, looking at it in a very different light.
But our Financial Services Committee staff does a tremendous job, and I want to read some of the data where it is very, very well-documented, the racial bias.

The Center for Investigative Reporting review project examined 31 million Home Mortgage Disclosure Act (HMDA) records, and concluded that modern-day redlining persists in 61 areas. It said specifically that the data showed that Black applicants were turned away at significantly higher rates than whites in 48 cities, Latinos in 25 cities, Asians in 9 cities, and Native Americans in 3 cities.

The investigation went on and found modern-day redlining in at least 71 metro areas across the country, even though 98 percent of the banks nationally still receive passing grades in their CRA exams.

So I am a little confused, and I think maybe because I am new, Mr. Chairman, I don't know, But I am looking at this and saying, well, the Community Reinvestment Act, and I look at the history. I love understanding the institutional knowledge of where something came from. Why did we do the FHA? Why do we have this specific act that came forward?

And I look at it because I want to know what were we trying to fix? What were you trying to remedy? And it is hard when you have the big banks, and we are trying to say, well, you want to go work with some of the MDIs and some of our other local, minority-owned banks, institutions, and so forth. But how do we stop, basically, the disparate impact? How do we stop the practice that, in itself, within these institutions is discriminatory?

We are never going to find emails that say, “Don't lend to Black people.” But you know what we have found? If somebody comes in and they have an accent or Spanish is their first language, the bank will give them a higher rate. That is what banks are doing, and it is well-documented. We found a number of cases.

Many of our States are involved in these cases, and they get these large settlements. But guess what? My colleagues and know this, and it hasn't remedied the situation because they continue to act badly, and they continue to intentionally discriminate through these practices.

Again, we are never going to find direct emails. We have to rely on the whistleblowers. We have to rely on the people internally who say, “I was trained to give a higher rate to the Black family,” or, “I was trained to do this.”

One of the things that I talk to Chairwoman Waters all the time about is, “You know, Chairwoman Waters, I really want to unpackage the credit score.” We have to unpackage that because they put all of this data in there, because the more data they have, the more they can sell, because Equifax, TransUnion, and Experian are all for-profit entities. A lot of my residents think they are kind of quasi-government. We regulate them, but they really make money off of selling our data.

But even if I was able to fix that, unpackage it—and we did introduce a bill, and many of my colleagues supported this bill that reduced people's debt. If your debt—you know how it stays for 7 years? Reduce it to 4 years. It passed out of the House Financial Services Committee. Hopefully, it gets out onto the Floor of the
House and goes on to the Senate. And you know nothing happens there. But the point is, we are moving towards that direction.

But even if I fix that for you all—and you know that needs to be fixed—I still have these kinds of practices happening. So I am asking, Mr. Poyo, Mr. Smith, all of you, I think we need to face the fact that you are working with some national banks. Maybe the CRA forced them to have to work with you. But in practice, we know that these national banks are not loaning to our people, and that is the increment problem that I think we are not addressing.

Mr. Poyo. It didn't sound like the Congresswoman is new. You brought up the word, “teeth”, earlier when you talked about this. And the interaction between fair lending exams and CRA exams, if you keep them in separate silos, and other sorts of exams, and you say, well, we have a problem here, but you are doing great over here, right?

And so, it is very rare. While our regulators do have the ability and the discretion to take results in one place and have it affect another, it is rarely used, right, because they get a lot of blowback on that.

But we have seen instances in which really problematic impacts on consumers impact something like a CRA rating. And if that were to happen more often, the CRA rating—whether you get a satisfactory or—has no consequence. But when you hit, “needs improvement”, there are some real problems that a bank has about opening and closing branches, about mergers, the kinds of things that banks really do care about from a financial perspective.

And these days, many of our punishments, especially for large institutions, are fines, and they laugh and the next day they make the money over. Right?

Ms. Tlaib. Oh, fines are the least of incentives. Like not the fine, but even—so one of the incentives are if you want to merge, you have to show you have been meeting CRA, and they even kind of cheat that little process.

But it is trying to fully understand how these exams happen internally. And how do we really force them to be able to stop redlining and be able to force them to work with all of you more? I almost feel like we need to call it out and say, “Well, you are not working with us. That is discrimination. You are not allowed to do that in the United States of America. It is prohibited.”

And we are kind of allowing it to be dismissed because I really do think we are in denial that it is actually happening, when the data continues to show that we are back—I mean, the numbers—and Chairwoman Waters knows this. We talk about it all the time. The numbers are as bad as they were before we passed the Fair Housing Act. That is how bad it has gotten.

Mr. Smith. Congresswoman, you are accurate, in my opinion. I can tell you from the Unity National Bank perspective, most of the borrowers that we see loan requests from have been to three, four, or five banks, and they have all been turned down, particularly African-American women. They seem to be turned down six or seven times.

And on a loan here recently that we did for an African-American woman, I was really scratching my head trying to figure out how she got the first turndown, much less five turndowns. And I
quizzed her repeatedly, “Well, what exactly did the bank tell you that they didn’t like about this deal?”

And she just had these very vague answers because there was no specific reason to turn her down. And of course, we made the loan, and we are happy to have the loan.

So all I can tell you is sometimes I struggle from my side of the desk when I look at these loan requests from minorities, and they have been turned down over and over again, and I am thinking, I was credit-trained by a billion-dollar bank, I know a little bit about what they think, and I can’t find a reason that they would turn the loan down, but yet, they are repeatedly doing so.

Mr. ARDOIN. Congresswoman, I think whatever penalties are being imposed against these banks that are discriminating, it is not enough. I think the penalties just need to be increased. Because a slap on the hand for discrimination is not working, and it is not going to work until they really feel it. And I don’t know what type of penalties that might be, but I think imposing stricter penalties would probably help solve the situation.

Mr. LINDNER. If I could, everybody that we lend to in LiftFund has been turned down by a bank. And the unfortunate thing or the frustration is, while we are trying to help those who are under-served—and we do that well—we are just a drop in the bucket compared to the entire national problem, and it is frustrating. We wish we could do more, and we do everything we can.

Everybody here at this table that is in a CDFI role, we embrace the underserved because that is our purpose in life, socioeconomic justice. But the frustration is we cannot do as much as we would like to, and as I said, the problem is so overwhelming. There is a frustration from our standpoint that we couldn’t do more.

Chairman GREEN. The gentlelady’s time has expired.

The Chair now recognizes the gentlelady from Texas, Ms. Garcia.

Ms. GARCIA OF TEXAS. Thank you, Mr. Chairman.

And I must say before I start my questions that when I heard you speak about the bailout of the big banks and why we haven’t focused on bailing out minority banks or providing some sort of assistance, I had just said the very same thing to my colleague from Missouri, because as I have watched things, especially after the financial crisis, it looks like the big banks got better, but the smaller banks and minority banks didn’t really do much better.

In fact, I think some of them have not done well at all, and you can count on me to support your legislation. And if you need an original cosponsor, I am here to serve, sir. We should move forward with that.

Chairman GREEN. Sure. I accept the offer. And I believe that all of the Members will work together with us to get it done.

Ms. GARCIA OF TEXAS. Thank you.

I wanted to start with Mr. Poyo. To strengthen the minority depository institutions, the National Bankers Association has called for enhanced incentives from majority-owned banks to make CRA-qualified investments in the MDIs.

Has your organization had any discussion or any preliminary working agreement with the National Bankers Association on what that might look like, to make sure that whatever they support is
already inclusive and representative of what your membership may want to see happen?

Mr. POYO. We have not had any discussion with them about what that could look like. I think the suggestions about increasing the specificity in the CRA regulations around MDI investments is a good step.

But I will say that it is an entirely other level than what the chairman was talking about. The idea of linking a favorable credit window to metrics of lending by MDIs, banks that are delivering to low- and moderate-income communities and to communities of color, actually linking to a credit window with a lower cost of capital is, from my perspective, not avant-garde. It is prudent, and it is effective.

And so, while I think it is important that we look at some of these regulatory steps, because maybe they are more achievable, I think that this is the sort of thing that really changes the game.

Ms. GARCIA OF TEXAS. All right. My concern is that when we look at these things, if we are not at the table from the beginning, then, once again, we may be left out. And I know that in another sub-committee that I serve on—actually, it is a task force—we look at what happens with modern technology, the algorithms and the matrix that are designed into the computer systems before we even get started.

Again, if we don't have people who know our communities, and who are sensitive biculturally or bilingually, they will design something that is just going to continue to discriminate. So, I think it is important that we look at that.

Has your group, or anyone else at the table with your national groups, have you all started really working with the folks who design this software? Because we are seeing more and more technology in the banking systems and all financial services.

Mr. POYO. I had the privilege of serving on the Community Advisory Council for the Federal Reserve and advising the Board of Governors on issues, including fintech, and had advised some larger banks in their no-longer-early stages of developing these things.

And one of the fundamental places we had to start with fintech is discrimination in discrimination out, right?

Ms. GARCIA OF TEXAS. Right.

Mr. POYO. And one of the real concerns that we have is that in the fintech space, you have an even more fierce protection of code, of what is proprietary code, so creating a black box, in essence.

And what is in that black box is deeply meaningful, and the speed with which machine-learning can now move you to deploying capital, right? Instead of deploying a product over 6 months, it is deploying over 2 months. And in that case, you can’t catch a runaway train.

So, we are very worried about the use of fintech to really put out products before they have been well-tested across markets because oftentimes, they are using credit scoring data and other data which is representative perhaps of a portion of our population, but not our entire population. And so, I think your concern and oversight in the area of fintech is incredibly important.

Ms. GARCIA OF TEXAS. Thank you.
And Mr. Chairman, if I can have one more, I wanted to ask Mr. Ardoin from the credit union, do you have any specific recommendations for us regarding how we treat credit unions as compared to banks, and anything else that you all may want to be doing that you are not doing now?

Because it seems to me that what—this is a field hearing to see what is happening on the ground. And in the banking industry, in my financial services industry, nobody is more on the ground than credit unions. So, give us your thoughts on what we might be looking at?

Mr. ARDOIN. Like I said, my credit union is small, $1.2 million in total assets. So, we are very small. I think up to $50 million is considered small.

But your question, again, had to do with—could you repeat the question?

Ms. GARCIA OF TEXAS. Is there anything that—any Federal rule or regulation that you think keeps you from doing something, serves as a barrier for you to be able to serve those customers because, again, you are the one there on the ground. That is where people go when they can't get the car loan somewhere else, when they can't even get help with buying furniture or just to get past it. Because if we don't make sure that you are working, then they are going to end up with payday lenders. And there is nothing I hate more than payday lenders, quite frankly, because I think payday lenders just make poor people poorer. So, we need the credit unions out there on the ground like yours.

Mr. ARDOIN. Right.

Ms. GARCIA OF TEXAS. And we need to make sure that there is nothing barring you from serving those customers.

Mr. ARDOIN. No. We have all of the abilities of the regular bank. We have insurance by the National Credit Union Association (NCUA) of $250,000 per account, the same as the FDIC does for the banks, the same amount secured by the FDIC.

We have fewer fees, which makes us a little bit more attractive from time to time, than banks. And I think we are more accessible and more friendly. So, I don't think that there is anything that bars us from doing what the banks do.

Ms. GARCIA OF TEXAS. Okay. That is fair.

What about Ms. Pena and Mr. Lindner? I know you nodded when I asked the question. I just wanted to get your opinion on that, on your ability to serve your customers.

Mr. LINDNER. Our constraint is just capital that we can deploy. And with regard to credit unions, as I said, they come under, obviously, the NCUA versus the CRA.

Ms. GARCIA OF TEXAS. Right.

Mr. LINDNER. If I could just mention something?

Ms. GARCIA OF TEXAS. Sure.

Mr. LINDNER. I think the most egregious lenders of all are the online lenders, the Kabbages and the OnDecks. Their interest rates are never disclosed, and it is somewhere up—it is as much as 50 to 75 to 100 percent. They are payday lenders but you just don't see the storefront.

And so, I think that is the biggest threat to small business owners in their ability to sustain themselves. Because everybody wants
money by sundown and they can get it by sundown, but that is more of a trap than it is a benefit to them.

So I see that as—you know, we all work together, but the online lenders are taking advantage of people who need money and need it fast for their businesses. And the payday lenders are egregious, 390 percent in some cases.

Ms. GARCIA OF TEXAS. Right.

Mr. LINDNER. But so are the online lenders. They are predatory. And they even had in the Wall Street Journal an article about how they are all going to disclose their interest rates. Well, that never happened, because they just don’t do that.

Ms. GARCIA OF TEXAS. Right.

Mr. LINDNER. And they draft out of your account every single day.

Ms. GARCIA OF TEXAS. Right.

Ms. PENA. Sure. I would just—to Chairman Green’s comment of finding a place for supporting the 92.5 percent banks that are $1 billion and less, the answer should be, yes, find a way. But I also believe, just from the CDFI perspective, Treasury plays a big role in being able to help us create opportunities to build equity and assets so that we can serve more folks.

So I believe, to Gary’s point and to your question, that liquidity is our biggest issue. We actually had to reduce our lending goals this year because our balance sheet was overleveraged.

So in order for us to be able to maintain, yes, it is a very fine balance as a community development financial institution to find the ability to meet the demand, but still meet protocol of financial soundness.

Ms. GARCIA OF TEXAS. Sure.

Ms. PENA. Thinking about things like that is very important to us. And using Treasury and supporting Treasury’s work can allow us to, again, expand our impact without creating disruption within our organizations.

The other thing, too, is the comment about CRA. There are other elements that could be measured. I think Gary brought this up, and also Noel, is that who financial institutions hire and who is part of their governance plays a key role in outcomes. And so, being able to figure out how do we measure that, Treasury measures and actually asks us to report on our advisory board and our board representation to ensure that we are accountable. And so, I think that is important.

As it relates to technology, right now LiftFund is partnering with a credit union in building a microloan program that can meet the needs for credit unions and take our understanding of microlending to the next level. So, I think there are great partnerships that potentially can happen. And actually, that partnership came through Treasury as well.

It is not enough, as Gary has mentioned, but I do think that there are certain things that could be enhanced, including just helping us with our liquidity to serve more people.

Thank you.

Ms. GARCIA OF TEXAS. Thank you.
Mr. Johnson, did you want to say something on the predatory lending? I saw you nodding, too, so—

Mr. Johnson. Yes. I would just amen everything everyone else has said.

Ms. Garcia of Texas. All right.

Mr. Johnson. The demand is there. The need is great. And we are all saying the same thing. We need capitalization. We need the funds to do a better job, the demand is just tremendous. We are on the ground in the community, and so many of the large banks are not. So I think increased funding to these organizations is the number-one thing that we need to kind of focus on.

And I love your idea, Mr. Chairman, in reference to, if we could help the larger banks in their time of distress, we should be able to help the smaller institutions in their time of distress, which is now.

Ms. Garcia of Texas. Thank you. And thank you all for what you are doing.

I yield back, Mr. Chairman.

Chairman Green. The gentlelady yields back.

The Chair now recognizes the Chair of our Consumer Protection and Financial Institutions Subcommittee, Mr. Meeks from New York.

Mr. Meeks. Thank you, Mr. Chairman.

I am sitting here somewhat frustrated, to be quite honest with you, because it seems as though we are not moving in the directions that we should move to get things done. I am intrigued by Chairman Green’s thoughts and look forward to working with him on it.

To me—and maybe somebody can tell me where I am wrong—that there should be an opportunity, if given the support, to really grow businesses in these communities. There is a reason why payday lenders and pawn shop folks are in our communities. They are making money.

Then on the flip side of that, I know in New York, as I am talking to the big banks and trying to hold them to the fire, what they are saying to me or to my communities is, “It is not worth me staying there. I am going to close the branch. I am going to pack up and go. I don’t even need that business. I don’t make any money there”, which then leaves the ground even more fertile for somebody else who is going to come in because that person has no other alternative.

What do they do? You can’t get a loan from a big bank because there is none there. Small banks are closing. A person’s car brakes breaks down. They are depending upon that car to get to work. They have to get it fixed. They go to look for a bank. There is no one there. They go someplace else, and get turned down. And, ah, they go to Mr. Payday Lender, and he says, “Come right on in. I have some money for you.”

That comes on top of a tradition where African Americans, because of racism in America, don’t trust banks in the first place.

My grandmother—I know I said I am from New York, but my grandmother is from South Carolina—would not put her money in the bank. She put it under the mattress. My mother—this is a true story. She passed away, and we were in the room, and underneath
the rug, we found all kinds of money, even though I was trying to
tell her how to invest some of it.

So, Mr. Smith, you were telling me yesterday when we had the
opportunity to visit Unity, for example, that something is wrong
when a bank with your model can’t get an outstanding rating in
CRA, just satisfactory. That is something we should be able to
work on.

There is something fundamentally wrong with MDIs not being
able to get outstanding ratings when that is who they are intended
to serve. Something just seems wrong when we can’t put these pay-
day lenders and others out of business because we have reputable
small, minority-owned banks that end up getting an individual into
a financial banking habit.

We went to one of the banks over on the Asian strip, and they
were showing us how they had a whole section there just teaching
people financial literacy when they walked into the bank, what to
look for, how to do it. And I know that might be an additional cost,
but some kind of way, we have to figure this thing out.

Also, Mr. Smith, I lean on you again when you said that you
have to try to figure out how people in the community who do have
some money put the money in your bank, as opposed to going
someplace else.

Okay, so how do you reach out? How do we make that difference?
How do we talk about keeping a dollar in a community so it can
grow and benefit a whole lot of folks within that community when
everybody else seems to be fleeing?

Do you have any—I mean, I am leaning on you. And I know, Ms.
Pena, what you are doing with women and the CDFIs there. And
I might be mistaken, but Mr. Johnson, your business is a little dif-
ferent because capacity—I don’t know whether or not there needs
to be something where we can create better capacity there so that
you can have the big dollars. But what you are doing, I don’t want
to inhibit you. But maybe the big banks are the answer for some-
one on a large development like that, a different scale of business.
What do you say, Mr. Smith?

Mr. Smith. Chairman Meeks, our ownership, Dr. Lawal, asked
me a few years ago to come up with a bank model of profitability
and get as small as I could, because we were interested in doing
branches around Houston and other low- to moderate-income areas.
And we were developing a program when Mayor-Elect Keisha Bot-
toms contacted us in Atlanta and said, “Would you come to At-
ampa?”

So we got on a plane and we went out there. Commissioner Rod-
ney Ellis was with us at the time, Dr. Lawal and myself. We went
to Atlanta, and we looked at a small, empty building in downtown
Atlanta in the low- to moderate-income area, and we developed a
plan of basically $10 million in deposits, and $10 million in loans.
We could have that branch profitable. And it was our prototype
that we did in Atlanta. Why Atlanta, they asked? That is why. The
Atlanta branch was open one year, and it was profitable on a
monthly basis for us.

With that success, we are looking at other areas, particularly
where banks have abandoned the community. We were looking to
put a Unity Bank in that area, and we were looking anywhere from
Harlem in New York all the way to Acres Homes in Houston. We were looking anywhere that we can put up a branch that will help the low- to moderate-income communities have access to the banking and products and services that they deserve.

Mr. MECKS. Would anybody else care to comment?

Mr. PARK. I totally understand, Mr. Meeks, your comment. But banking business is, in another sense, a risk-taking business. So we should have responsibility per CRA, et cetera, from regulators always say.

And also, the bank is private company-owned, so we should pursue profit, too. On the other hand, we should do profit-pursuing. Also in the other hand, we should follow the rules on the regulators' exams.

So, for example, SBA loans, they ask us to do a lot of SBA, especially small express loans of less than $350,000 for lower-income people. But lower-income people have very bad credit, and our guidelines do not meet what they have. So actually government people, regulators urge us to do more for the minority people, lower-income people, but actually examiners come. They just try to apply the same rules and regulations for some other very—the normal guidelines. This way, the bank really has a problem to follow, to stretch. The bank does not want to take that much risk.

So, regulators should have some kind of a different guideline. For example, a bank should have strong minority target loan programs or some special products, and then they might have some more default loans. So when the examiner comes, they should understand.

But mostly what regulators—what they say, to urge some more for minority lower incomes. But examiners, totally different people come. We don't care for that. So please understand that the banking business is a risk-taking business. So some kind of a risk, when we take for lower income, should be considered in exams.

Chairman GREEN. The gentleman yields back.

The Chair now recognizes the gentleman from Missouri, Mr. Cleaver, who is also the Chair of our Subcommittee on National Security, International Development, and Monetary Policy.

Mr. CLEAVER. Thank you, Mr. Chairman.

I disagree with my colleague, Congresswoman Garcia, when she said she couldn't think of anything she hated more than the payday lenders. I hate the Oakland Raiders—

[laughter]

Mr. CLEAVER. —but other than them, I am with her. And I struggle with this issue. Let me just tell you what happened, one of the most painful days I have had since we came in together. We have sat by each other for 15 years.

We are trying to deal with payday lenders. The other side brought in—we have been beating up on the payday lenders. The other side brought in as their witness a school teacher—I don’t know if you remember—from California, and she sat down right in front of us and said, “I am a school teacher. I am college-educated. I need payday lenders.” She said, “If I need $300 or $400 to make it, I can’t get it from a bank. I have to get it from a payday lender.”

When she spoke—they called on us to speak—nobody would ask her a single question. Everybody was hesitant because, what are
you going to do? You can’t say that she is a stupid person, and she is being taken advantage of. This is a very complicated issue.

And we are losing the banks. In 1985, in the United States, we had 18,000 banks, 18,000. Today, we have 5,500, give or take a couple hundred. So, we have consolidations and purchases as primarily the reason.

But I think we need to rethink the whole issue. Because last summer, I spent a day at a fintech company in Fort Worth, frankly, in Fort Worth, where the CEO, I think, was 13-years-old, and a COO was 12-years-old. Most of the other employees were either 8-, 9-, or 10-years-old. All of them are billionaires, and their parents have to deposit the money for them because they are too young to have bank accounts. But they don’t have the same regulations that you guys are facing.

And we have a number of other problems. They will say we can be much more racially sensitive because we don’t know the skin color of people who are getting the loans. We know nothing, except their qualifications, because they use algorithms. Of course, there is an algorithm mind somewhere who designed it. But they are able to get the loans out—I don’t think they can get it out the same day. I think they get it—for many of the people who come to them, they get it out the next day. So, it is not like the same day. But it is a problem.

And I don’t know whether—Mr. Smith, the Fed discount rate doesn’t apply to community banks, does it? The Federal discount rate, it is just—it does apply?

[Nonverbal response.]

Mr. CLEAVER. Okay. What I am wondering is, could things be made lighter if the Federal discount rate is lower for smaller banks based on deposits? I don’t know what kind of positive impact that would have. But as I am listening, I am thinking the Federal discount rate maybe ought to be at this level for giants and at another level for community banks. That could be a solution.

The other thing I am trying to figure out we can do, because we don’t want to keep having a war between the banks and the credit unions, as if it doesn’t exist today already—

VOICE. We don’t want to go there.

[laughter]

Mr. CLEAVER. Yes, I shouldn’t have even mentioned that. Forgive me, Lord.

But I do know that people prefer a relationship bank where, when you go in, they know your name, they know your children, where they are in college. So, people prefer that.

But I don’t know. We struggle to try to figure out how to resolve this issue. I don’t know if we have the same options to do what I think could be of help, and I think most of us are interested in doing what would be helpful.

I am thinking that lowering the discount rate is something—because the Fed has to do it, rather than the Members of Congress. I don’t know what impact we would have recommending it to the Fed, anyway.

But if you have any other ideas on what you think we might be able to do that would help community banks and credit unions, I think we have a very, very open group of people who are doing it.
And I have to tell you, I am going to become an enemy. FinCEN is under my subcommittee’s jurisdiction, as are fintech companies, and the problem is, we are going to have to start seriously considering government involvement. I know they don’t want it, and nobody else does. But if we don’t, I don’t know what is going to happen. Yes?

Mr. Lindner. I would just ask you all to step up because fintech payday lending, you can see them. You can’t see the fintech companies, and they are an enormity. Billions and billions of dollars are loaned to people who cannot repay, and it doesn’t bother them one bit. There is no conscience whatsoever.

We have watched them, and we see what they are doing, and it is just egregious. So, anything you can do to put your arms around the fintech companies—payday lenders, you can actually see them, but you can’t see the fintech companies, and they are pumping out billions of dollars every month.

Mr. Cleaver. Yes, I have seen it.

Mr. Lindner. So the net needs to capture some of that, because that is what is costing a lot of small businesses their livelihood.

Mr. Cleaver. The problem is that the people running those banks are juveniles, so you can’t put them in jail. I have never seen one yet over 15-years-old.

And just so the people out there know, I am kind of adding a little to it, that I am just saying that they are usually very young people, and they come up with this new technology, and they are getting richer by the second.

Chairman Green. The gentleman yields back.

I would like to recognize the presence of Mr. Marlon D. Mitchell. He is the president and CEO of Houston Business Development, Inc., that deals with financing the growth of small businesses. Thank you for being in attendance today, sir.

Yesterday, we visited what is known as the “International District,” and we went there because within about a 1-mile radius, we have about 10 small banks, and some large banks, too. But we have these banks that have all found reasons to be located within a stone’s throw of each other.

And in visiting with the various CEOs and presidents, we discovered something that I found quite intriguing. A business model has developed such that the bank will purchase land and build a facility. The first floor belongs to the bank. The floors above the first floor are sold to business people with a fee simple, such that these other, let’s say, nine floors, nine stories above, they tend to cover a lot of the cost that the bank has in initiating its entree into banking.

We talked to a REALTOR who has purchased with fee simple on one of the floors, and these bankers are acquiring funds from the sale of these upper floors before they build the building, because they get commitments for the purchase with a fee simple, meaning they literally own that space that they are in.

Tell me about this model in terms of how it can work in other communities? I need to add one additional thing. They have funded the businesses around the bank, and they pointed out specific businesses that they have funded that you can see from the bank.
They chose an area. They are lending to small businesses. The small businesses are creating the jobs that Mr. Meeks talks about, this circle of inclusivity. That model seems to work quite well for the International District.

So, let’s start with whomever would like to be first. We have bankers here. We have others who can help us. Who would like to respond and give a comment on the model?

Mr. Lindner, do you want to start with this? Are you familiar with the model?

Mr. Lindner. Yes, I am. What I would tell you—and we have done this before—is partner with banks that want to do that and help the small businesses with financing as well. So there are some partnership opportunities with organizations like us and banks that are motivated to help small businesses, where they lend to them, if they can, or if they cannot, then we can probably lend to them. So, I think it is a great opportunity, quite frankly.

Chairman Green. Mr. Park, you are about to open a bank, if it is God’s will, and I pray that you will. Forgive me for using a word that I am very comfortable with that some are not, but let me ask you, does your business model include something similar to what I have just explained?

Mr. Park. Yes.

Chairman Green. Tell us how that business model will help you to get your bank off the ground?

Mr. Park. At this moment, I cannot follow the model exactly, Mr. Chairman, as you pointed out, but as soon as we settle down, I have an idea and a strategic plan to follow that model. And also, I know—

Chairman Green. Let me do this. To prevent you from saying something that you shouldn’t say, rather than comment on your specific entity, just tell us how that model has worked. You have some knowledge of how it can work. So, just tell us about the model in general, if you would.

Mr. Park. Okay. At this time, the model—I am trying to raise funds and make a new bank. It is very difficult to raise capital, but I don’t have a choice with my investors who will make it. Because even though we tried to get some support, financial support from other institutions or fund companies, or whomever, it does not work out. So this time, we will make it.

However, when we get some significant asset, $300 million, $400 million within the next 3, 4 years, and then that, Mr. Chairman, you brought up, the model is very attractive. And some minority groups, some banks, as you pointed out, are very, very successful.

In the beginning, many community people did not really agree to that kind of model, but a local CEO initiated it, and it was very successful. So at this time, people know in the community that the model is very good.

So when banks initiate that, a lot of people will join, and I think the bank and when, actually, a bank could get into a building, many other businesses are automatically in.

Chairman Green. Let me intercede and ask this question, if I may, Mr. Park.

Mr. Park. Yes.
Chairman Green. Is it true that when you use this paradigm, this model, that the bank will finance the loan that is made to the business that desires to purchase the fee-simple property within the bank's structure, that building that we are talking about? Has that been your experience? Have you seen this occur where the bank finances a loan so that the business that is buying the property has a loan with the bank that happens to be on the first floor of the facility?

Mr. Park. In my banking experience, I haven't done exactly that. But I saw a couple of very successful examples recently. So in the near future, I want to follow that model exactly.

Chairman Green. Thank you very much.

Mr. Smith, can you comment on the model, please?

Mr. Smith. Yes, sir, Mr. Chairman.

I have been financing fee-simple condo projects since the 1980s. Whether the model is successful or not really depends on the cost and what the long-term costs are of the project. But we have had very successful ones in banking, and we have had some not-so-successful ones that I have seen.

As far as the bank owning the property initially and then selling off floors or space above it, I think that could be done, but I think you have a lot of disclosure issues that you are going to have to go through to do that.

One of the things I would worry about as a CEO of a bank would be, am I selling the second floor to one of my better customers who already has loans with me, and did I make it conditional that they buy this second floor so that they could continue that relationship? There are issues here that you would have to really cover.

Chairman Green. It seems to me that good lawyers can be of benefit.

Mr. Smith. That is right.

Chairman Green. Apparently, there are good lawyers out there because we visited banks yesterday that have been successful with the model.

Mr. Smith. We are going to look into it.

Chairman Green. I can point you in the direction of a bank that exists that has used the model successfully. And according to what we were told, they don't have problems with the OCC. They are complying with CRA.

This model seems to be one that was imported from Taiwan, maybe China, but it is something that originated elsewhere, such that you literally sell what is the equivalent of a condominium to a business in the same building the bank is in, and you have an HOA. It seems to work.

Mr. Johnson, please?

Mr. Johnson. Mr. Chairman, it is an excellent model. I think it works extremely well. You see it a lot in the medical area. You see quite a few office condos that a medical organization will design a building and then be the principal owner of that building and then sell condos. They create an organization to actually manage it. They generally are the general partner in that type of a deal, but it is an excellent model. And I agree with you. I think it could work with banks. And Mr. Smith, I would love to show you a potential project in the Missouri City area that could work for Unity Bank.
Chairman GREEN. All right, Mr. Johnson, one more question. And then, Ms. Pena, I have one for you as well.

Mr. Johnson, when we had an opportunity to visit Corinthian Pointe, we saw some 300-plus homes that were constructed. What was that number again, please?

Mr. JOHNSON. It was 434.

Chairman GREEN. 434. And you explained that the actual cost of the homes now, they are valued at what amount, would you estimate, please?

Mr. JOHNSON. In the initial development, the homes were—the starting sales prices were in the $80,000 to $120,000 to $130,000 price range. This was approximately 15 years ago.

Now, those homes are in the estimated value of $150,000 to $190,000, so they have appreciated in value over the last few years.

Chairman GREEN. And I am going to have to apologize. I do have some Members who will have to depart.

Ms. Pena, I humbly apologize to you. I wanted to get more information.

But suffice it to say, you started this with a not-for-profit of some sort, did you not, Mr. Johnson?

Mr. JOHNSON. Yes. The owners created what was called the Pyramid Residential CDC, and that was the developer for the project. The project, we created a tax increment reinvestment zone for that section of the development, and that provided the funding for the infrastructure for the development of the homes. The homes sold. It was the fastest-selling subdivision in the City of Houston in the year 2004–2005. So, it was a very, very big success.

Chairman GREEN. And what is the worth of that project currently, in rough numbers?

Mr. JOHNSON. The entire project as of last year has a worth of $178 million.

Chairman GREEN. $178 million?

Mr. JOHNSON. Approximately.

Chairman GREEN. Okay. Thank you very much.

I wanted to get on the record of what a community development corporation, some sort of not-for-profit can do to enhance the value of the community, improve the lives of the people, and create jobs. The spinoff from what you have done is remarkable, and I want to compliment you.

At this time, friends, I have to thank the witnesses for their testimony and for devoting the time and resources to travel here and share their experiences with us. Your testimony today has helped to advance the important work of the Subcommittee on Oversight and Investigations.

The Chair notes that some Members may have additional questions for today’s panels, 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.

Without objection, the hearing is now adjourned.

[Whereupon, at 2:01 p.m., the hearing was adjourned.]
September 4, 2019

To: House Financial Services Committee’s Oversight and Investigations Subcommittee

From: Raymond Ardoin – Board Chairman
Brentwood Baptist Church Federal Credit Union
Houston, Texas
Phone: [Redacted]

Re: Examining Discrimination and Other Barriers to Consumer Credit, Home Ownership, and Financial Inclusion in Texas

Good afternoon, and thank you for the opportunity to testify today on this very important subject. My name is Raymond Ardoin and I am the Board Chairman of Brentwood Baptist Church Federal Credit Union in Houston, Texas. We are a small credit union currently with 833 members which was formed in 1992 by our church, Brentwood Baptist Church, and we are a low-income designated credit union. We currently have total assets of $1.2 million dollars. We have not entered the real estate and mortgage lending business, but we do offer automobile financing, share secured loans, signature loans and secured debit cards to our members.

Our credit union was formed to provide the availability of financial services to our church members. At that time, most members had proximity to a financial institution near their jobs, but there was no particular institutional loyalty and most members complained about cold, impersonal and insensitive way that they were treated at banks. Our credit union worked diligently to provide our members with a fair and convenient place to save and borrow money. And although we do not currently handle real estate and mortgage loans, we know that the basic rules of credit extension are involved in all types of lending.

Equal access to mortgage credit for minorities remains a serious issue. The Fair Housing Act makes it unlawful to discriminate in the rental or sale of housing, or to impose different terms and conditions of a transaction based on race, color, religion, national origin and gender. To avoid mortgage discrimination, minority borrowers should shop multiple lenders. Not only will that help you find the best mortgage interest rate, but it could also identify lenders that are discriminating with higher rates, or a lack of access to credit.

If lending discrimination is suspected, the following are several other potential solutions that one should consider doing:

- First, contact the lender and enter a complaint
- Contact their state attorney general’s office and report it.
- Consider retaining a local attorney
• File a complaint with the Consumer Financial Protection Bureau (CFPB) and the Department of Housing and Urban Development
• Research and read reviews in an effort to find a better lender

One should also check that their chosen lender is committed to federal anti-discrimination laws. Most good lenders announce this in the disclosures section of their website.

Fortunately, although many of the banks in the U.S. have exhibited discriminatory tendencies, many minorities are finding success with online banks, where they find the color of their skin is less of an issue.

Like many community banks, MDIs face difficulty accessing capital markets and competition from larger banks. In the aftermath of the most recent financial crisis, despite moderate improvements in earnings and capital levels, MDIs continue to struggle with compressed net earnings. In may cases, compounding MDI challenges are the effects of economic hardships on MDI customers, many of whom reside in low or moderate-income (LMI) communities.

In 2013 the Federal Reserve reaffirmed its commitment to MDIs in its Consumer Affairs Letter “Federal Reserve Resources for Minority Depository Institutions”. This letter also discusses technical assistance that is available to MDIs through the Federal Reserve’s Partnership For Progress Program, a national outreach effort to help MDIs confront unique business model challenges, cultivate safe banking practices, and compete more effectively in the marketplace.

Conclusion:
This concludes my testimony today. Thank you very much.
Good Morning. Thank you for inviting me here to speak to you about the research the National Community Reinvestment Coalition (NCRC) has done on matched pair testing in the small business arena.

NCRC is a national non-profit organization that has been in existence for over 25 years. The National Community Reinvestment Coalition and its grassroots member organizations create opportunities for people to build wealth. We work with community leaders, policymakers and financial institutions to champion fairness in banking, housing and business.

NCRC was formed in 1990 by national, regional and local organizations to increase the flow of private capital into traditionally underserved communities. NCRC has grown into an association of more than 600 community-based organizations that promote access to basic banking services, affordable housing, entrepreneurship, job creation and vibrant communities for America’s working families.

Our members include community reinvestment organizations, community development corporations, local and state government agencies, faith-based institutions, community organizing and civil rights groups, minority and women-owned business associations, as well as local and social service providers from across the nation.

My name is Dedrick Asante-Muhammad and I am the Chief of Race, Wealth and Community at the National Community Reinvestment Coalition. I oversee our work on fair lending, fair housing, entrepreneurship and developing practices to address the racial wealth divide.

For over 20 years NCRC has been involved in civil rights matched-pair testing in the housing discrimination arena. NCRC has received and continues to receive funding from the U.S. Department of Housing and Urban Development (HUD) Fair Housing and Equal Opportunity division to perform rental, sales, insurance, and lending testing under the Fair Housing Act. Matched-pair testing is routinely performed not only by advocates but also by financial institutions to mitigate fair lending risks. Currently, the majority of this mystery shopping occur in the mortgage lending arena.

Chairman Green has introduced two bills (H.R. 149 and H.R. 166) during this Congressional session. Both bills would strengthen fair housing and fair lending laws by increasing the support for testing at both HUD and the Consumer Financial Protection Bureau (CFPB). Testing provides a snapshot in time of an interaction between a tester and a housing provider. It provides information that is not always possible to be collected by other methods. More specifically, testing highlights a difference in how two people are treated based solely on a protected status, such as race, national origin, or disability.

In 2017, NCRC partnered with three university professors: Dr. Jerome Williams at Rutgers North, Dr. Glenn Christensen at Brigham Young University, and Dr. Sterling Bone at Utah
State University. These three professors first published work in this area in 2010 "Rejected, Shackled, and Alone: The Impact of Systemic Restricted Choice on Minority Consumers’ Construction of Self" in *Journal of Consumer Research* the top academic journal in their field. See attachment A. This collaboration with the university professors resulted in the publishing of the academic paper “Shaping Small Business Lending Policy Through Matched-Pair Mystery Shopping” in the *Journal of Public Policy & Marketing*. See attachment B.

The “Shaping Small Business Lending Policy Through Matched-Pair Mystery Shopping” paper looked at the experience that black and white men had when they inquired about a small business loan. The paper highlights that the testing “show[s] that African American testers were asked to provide more information about their businesses and personal financials than Caucasian testers. Specifically, compared with Caucasian testers, African American testers were more frequently requested to provide information from their business financial statements, personal financial statements, the amount of their accounts receivable, and their personal W2 forms”. The service that the black tester received was poorer than the service received by the white tester.

Today, NCRC released a white paper “Disinvestment, Discouragement and Disparity in Small Business Lending”. See attachment C. To evaluate differences in small business ownership and lending opportunities, NCRC and our academic partners conducted a two-part study. First, NCRC analyzed small business ownership and lending at the national and metropolitan level in seven cities using data from the federal government. This analysis revealed that the recovery of small business lending activity in the wake of the 2008 recession has been uneven. Black and Hispanic entrepreneurs experienced almost no improvement since the crisis ended.

The areas that we examined are: Atlanta, Houston, Los Angeles, Milwaukee, the five boroughs of New York City, Philadelphia and Washington, D.C.

The data shows the following:

- There were steep declines in SBA 7(a) lending to black small business owners. This resulted in a reduction from about 8% to 3% of loans during the Great Recession, a decline that has yet to recover. There was an initial decline of lending for whites and then it recovered. For Hispanic borrowers it was stagnant.
- Business owners in wealthier areas received the largest share of loans - 85% in Milwaukee. In fact, in six of seven metro areas analyzed, more than 70% of loans went to middle- and upper-income neighborhoods.
- The number of bank branch locations declined 10% since 2009, likely affecting small businesses that are highly dependent on local-level banking relationships.
- Banks have not reinvested the increased capital accumulated after the end of the Great Recession back into small businesses. The most significant difference between deposits and loans occurred in New York, where deposits increased by 100%, but lending decreased by nearly 40%.
- There are tremendous gaps in black and Hispanic business ownership relative to their population size. Although 12.6% of the U.S. population is black, only 2.1% of small businesses with employees are black-owned. Ownership for Hispanic entrepreneurs is
slightly better at 5.6% of businesses, while they represent 16.9% of the population; White businesses are 81.6% of the total, with 62.8% of the total population.

Next, NCRC and our partners conducted a series of “mystery shopping” tests of banks in the pre-application arena to evaluate the customer service experience of prospective borrowers of different races and ethnicities in the Los Angeles metropolitan area. The data shows the following:

- Overall the customer service experience for all of the testers was poor regardless of race or national origin. However, the black and Hispanic testers experienced worse treatment compared to the white tester. A few examples are:
  - Bank personnel introduced themselves to white prospective customers 18% more frequently than they did to black prospective customers. White testers received friendlier service overall.
  - Black and Hispanic testers were requested to provide more information than their white counterparts, particularly personal income tax statements. Hispanic testers were asked to provide them nearly 32% then counterparts and black testers were asked 28% frequently than their white counterparts.
  - White testers were given significantly better information about business loan products, particularly information regarding loan fees. White testers were told about what to expect 44% more frequently than Hispanic testers and 35% more frequently than black testers.

- One area of customer service was significantly better for black and Hispanic prospective customers – they received an offer to schedule an appointment to take their application more often, which happened 18% more frequently for black testers and 12% more often for Hispanic testers.

Our results show a pattern of disinvestment and discouragement that contributes to the wide disparities in small business ownership for blacks and Hispanics in the U.S. The Federal Reserve Bank of New York in their annual small business study highlighted that 27% of Black and 21% of Hispanic business owners, with employees, reported feeling discouraged from applying for credit. This means that Black and Hispanic business owners would not apply for financing because they believed they would be turned down. This concept of discouragement is vague because it’s based on subjective feelings rather than objective observations. The research that NCRC and its partners engage in provides objective measures to behaviors that, taken as a whole, discourage potential customers from applying for bank loans. When business owners don’t apply for credit they stall business growth affecting all of us.

Thank you again to Chairman Green for the opportunity to highlight the NCRC’s research in the small business arena and for recognizing the importance that testing has in highlighting the barriers that black and Hispanic small business owners face when trying to access credit to grow their businesses.
United States Congress – House of Representatives
House Financial Services Committee’s
Oversight and Investigations Sub-committee

September 4, 2019

“Examining Discrimination and other Barriers to Consumer Credit,
Homeownership and Financial Inclusion in Texas”

Testimony – Belinda Everette, NAACP – Houston
Chair, Housing Advocacy

A pivotal component in the challenge to increase African American homeownership has been and continues to be access to credit, specifically residential home mortgages. Homeownership is the most significant factor contributing to the disparate gap in wealth between whites and minorities. A study by Brandies University reveals that years of homeownership, not just homeownership is the driving force at the core of the gap.

Housing, lending and insurance markets have served as the bastions of overt discrimination through residential segregation. The dual credit markets in the United States make it easy for mainstream lenders to ignore and avoid minority and LMI communities, but provide easy access for ‘Pay Day’ loan stores, pawn shops and hard money lenders with their specialized products designed to drain the life’s blood from many communities of color.

Drive through many of Houston’s historic minority communities and see a plethora of fast-money resources with high interest rates and easy payroll deduction repayment structures. Most pay day lenders enjoy 400% interest on loan amounts from $50.00 to $500.00. This is the level of credit that is readily available to Houston’s minority population.

Since 2007 African-American homeownership has experienced the most dramatic decline of any racial or ethnic group. African-American home ownership declined 5% in the past 10 years while Caucasian, Asian, and Hispanic home ownership declined only 1%. Researching the most recent published HMDA data for the Houston-Woodlands-Sugar Land MSA, these numbers are supported by an alarming on-going trend in mortgage origination:
Black or African Americans:

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<th># of Application</th>
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<th>Closed Loans</th>
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<td>4985</td>
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White or Caucasian Americans

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These statistics reveal a systemic and pervasive discriminatory system at work. According to the City of Houston, the demographic makeup of the Houston MSA is:

- 25% White or Caucasian American
- 22% Black or African American
- 45% Hispanic American
- 7% Asian American
- 1% Other / Mixed Race

Whites are provided home ownership opportunities 10 times that of African Americans and 4 times that of Hispanic Americans.

One of the most important steps in stabilizing and expanding sustainable homeownership within minority communities is to expand access to credit availability. We also need a greater focus on consumer education and housing education related to building credit and using low down payment and down payment assistance programs. More than 70% of all adults are unaware that down payment assistance exists and that 87% of all homes sold qualify for down payment assistance.

While nationally the African American homeownership rate peaked at 45% during the first six years of our new millennium it is currently 42%; in Houston that number is only 38%.

In celebration of our 100th Anniversary in 2018, the NAACP Houston Branch developed and introduced the “Homes for Houston” home buyer education program to address the rapid decline in minority home ownership in the city.
The “Homes for Houston” home buyer education program took a comprehensive approach to educating consumers on every aspect of the home acquisition process. From learning financial and credit management to understanding sales contracts, appraisals and title work. This curriculum provides a common sense, comprehensive education for consumers. Additionally, the seven module course, includes a detailed module on down payment assistance programs.

In its inaugural year (2018), over 230 people completed the course with 22 new home owners netting $3.8 Million in new loans in the first six months. By year end a pipeline of an additional 51 people were in process for a total of $12.3 million in new mortgages. We anticipate to double participation and mortgage production in 2019 based on current run rates and the growing popularity of the program. Education and access to resources are key.

Likewise, partnership and alliances with the financial services community is a driving factor to the success of our program. Meeting people where they are and providing true investment in the community by investing in its people is the solution to increasing and sustaining minority home ownership.

Attachments:
NAACP Houston Branch Home Buyer Education Program Summary
2016 HMDA reporting for Houston-Woodlands-Sugarland MSA
HOMES for HOUSTON

PROGRAM SUMMARY

The NAACP Houston Branch, "Homes for Houston" initiative is a strategic partnership with banking, real estate and municipal community organizations as a three-tiered approach to building and sustaining growth and development in targeted Houston communities.

In its inaugural introduction, the 2018 Centennial Year of the NAACP Houston Branch, the program was launched under the banner of "Homes for Christmas." To commemorate the 100 years of service in the City of Houston, the program was introduced with a goal of increasing minority home ownership with 300 new home owners by Christmas Day. The continuation of the program in 2019 was introduced under the title "Homes for Houston." This initiative provides education and resource access for individuals in the three comprehensive segments below:

COMMUNITY EDUCATION

Provide seven module home buyer education program, facilitate HUD-approved home buyer counseling and financial literacy programs targeting credit and income management, home ownership and generational wealth development.

EDUCATION:

Preparation for Home Acquisition:
A seven module curriculum with detailed, collaborative tools to provide a comprehensive, actionable plan to prepare for homeownership.

1. The Basics – Rent vs. Own
2. What it takes to be a Home Owner
3. The Mortgage Process
4. Real Estate. REALTORS®, Contracts and the Property Search
5. Down Payment Assistance
6. Getting Started
7. The Team – Financial, Real Estate and You

CONTACT INFORMATION:
Email: housing@naaphouston.org • Office: 713.526.3389
HOMES for HOUSTON

COMMUNITY RETENTION

Work within at-risk markets within the Houston MSA to provide education and access to resources to maintain existing home ownership and community stability. Recognize and address fair housing opportunity.

RETENTION:

Provide information and access to resources that will sustain vital growth in all communities, through property maintenance, improvement and foundational wealth.

Through "Homes for Houston," the NAACP will further the education of responsible home ownership. With education and resources, existing communities protect property values and learn market practices to establish values and price points for homes in the community.

- Value of home ownership
- When it makes sense to "Stay" rather than "Sell"
- County and Municipal resource management
- Workshops
- Know your value and your community/

COMMUNITY INVESTMENT

Develop partnership and opportunity between real estate community, developers, and financial service providers through workshops, seminars and education.

INVESTMENT:

Facilitate relationship development between residents and the real estate community. Developers, financial service providers to source and identify viable options to stabilize, sustain and grow desired communities. Provide investment education, wealth transition and foundational tools to protect, preserve and stabilize community development and opportunity.

SUMMARY

In recognition and celebration of the centennial year (1918-2018) of service in the city of Houston, the NAACP Houston Branch launched the "Homes for Centenarians" initiative with the goal of increasing and sustaining home ownership in minority communities by 500 families and/or individuals. Our motto "from class to keys" provides a collaborative partnership to ensure the participants have a clear path from class to home ownership with weekly and monthly targets and goals. We partner with each participant to ensure the dream of home ownership is realized.

In 2018, the inaugural year of the program, Homes for Houston program results were: two hundred and thirty-seven (237) participants completed the program, receiving their home ownership education certification. From the certified participants, twenty-two (22) new homeowners (closed and in a home) and a pipeline of fifty-one (51) new homeowners to close in 2019.

Through new home ownership, retention of existing home owners and community investment from our financial partners and the real estate community, the NAACP Houston Branch will continue its efforts to bring more families - "Home for Houston".

CONTACT INFORMATION:
Email: housing@naacphouston.org • Office: 713.526.3389
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<th>Applications Received</th>
<th>Loans Originated</th>
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<th>Applications Denied</th>
<th>Rejected or Withdrawn</th>
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INCOME OF APPLICANTS 6/1: LESS THAN $30,000 MEDIAN 10,000; 60-70% OF MEDIAN MEDIAN 12,000; 70-90% OF MEDIAN MEDIAN 14,000; 90-110% OF MEDIAN MEDIAN 16,000; INCOME NOT AVAILABLE 6/2:

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Inventory: 10,000 - 1,000,000

Note: Figures may not add up due to rounding.

Report Date: 05/25/21
Small businesses are the economic hub that keep the city of Houston, the great state of Texas, and the entire nation moving. Entrepreneurs create living wage jobs that support families and elevate low income communities. According to the U.S. Small Business Administration, small businesses accounted for 66% of new jobs last year. In Texas, small businesses represent nearly 90% of all businesses in Texas, but access to affordable capital and the tools to grow remains a critical challenge.

In 2018 The Kauffman Foundation released a report stating that 81% of entrepreneurs do not access a bank loan or venture capital; the barriers to entry for diverse and low income small business owners are mounting. Large banks continue to expand while small and medium community banks shrink and underwriting criteria tightens. Since 2008, the number of banks with assets under $50 million has declined 41%, and large banks simply cannot make a profit on small risky microloans. The current lending landscape among mainstream financial institutions often precludes diverse and low income small business owners – these are our community’s leaders, brilliant innovators, and entrepreneurs who simply want a hand up as they climb the ladder of economic mobility.

Community development financial institutions like PeopleFund were created to bridge the void between the banking sector and a business owner in need. Mission-driven and committed to advancing underserved populations, community development financial institutions help startup, low income, and minority borrowers by extending capital, wrapping funds with tailored financial education and technical assistance, and guiding them on the journey toward wealth. Community lenders like PeopleFund remain committed to social and economic justice, embracing diversity among the board and staff. At PeopleFund, we have a minority-majority staff and governing board to ensure that our programs, products, and services are responsive to client need and that everyone has a voice at the table. Our target market is minority, women, veteran businesses and those located in low to moderate income census tracts. 97% of our loans are to our target market.

Although certified by the U.S. Treasury Department, community development financial institutions are not subject to the same regulatory oversight as banks, however we remain accountable to all who provide us with low cost capital for lending. We have greater latitude in our lending practices, and we can be agile in our programming to fill gaps as they arise. For example, in the wake of Hurricane Harvey, 90 of our clients with loans from PeopleFund sustained severe damage to their businesses. In response, PeopleFund made a conscious decision to make loan payments with our capital for those 90 clients for 6 months, because we believed that under the circumstance it was the right thing to do. We also assisted with insurance claims, document recovery, and cleanup. Pleased to report that of the 90 businesses, 88 are still operating. One business owner passed away and the other moved away. This is just one instance of a community development financial institution creatively responding to an urgent need and build a lasting bond with our small business owners.

Unlike traditional banks, community development financial institutions are collaborative, not competitive, and work together to leverage our resources to build a better tomorrow through economic opportunity. PeopleFund, and community development financial institutions throughout Texas have worked alongside one another to create special

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3 Ibid.
loan pools for veterans, products dedicated to entrepreneurs of color, education programs for formerly incarcerated individuals, and expanded access to technology and digital resources.

Our clients come from all segments of life; some never completed high school and others honorably served in the military – one element they share is a desire to obtain their piece of the American Dream and willingness to work hard for that very opportunity. Despite lending to startup entrepreneurs, business owners with Individual Tax Identification Numbers (ITIN) but without citizenship status, borrowers with limited or challenging credit histories, and in low income areas, our 2018 loan default rate was less than 1%. With flexible capital and comprehensive business education, we can lift up marginalized populations, transform neighborhoods, and create living wage jobs. Small businesses have the power to elevate entire communities, bringing in critical goods and services, spurring future development, and ensuring future generations have access to traditional financial products. Community development financial institutions are the entry point to spark this change.
One of the potential solutions of the first panel issues is to increase numbers of minority depository institutions ("MDIs") and community development financial institutions ("CDFIs"). Recently, the numbers of MDIs / CDFIs being disappeared by M&A are much bigger than the ones of MDIs/ CDFIs newly being occurred. Under this current situation new start-up MDIs/ CDFIs critically experience difficulties raising initial funds covering capital and all other costs etc.

However, in reality, new start-up MDIs /CDFIs are mostly excluded from investment companies and banker’s bank to get some financial supports for initial forming stages. This means that there are many financial difficulties if forming groups do not have enough funds to cover by themselves. In addition, some MDIs/ CDFIs which are suddenly grown in bigger scale by M&A tend to dominate minority banking markets and to deteriorate its environments.

How to resolve these issues of MDIs/ CDFIs? It is to increase numbers of MDIs/ CDFIs to a certain degree which can be taken in current markets. To promote more numbers of MDIs/ CDFIs government should support how new start-up MDIs/ CDFI groups can have easier access to knocking the doors of investment companies and banker’s bank.
Wednesday, September 4 at 10:00 AM — The Subcommittee on Oversight and Investigations will convene a field hearing entitled, “Examining Discrimination and Other Barriers to Consumer Credit, Homeownership, and Financial Inclusion in Texas.” in Houston, Texas.

Testimony of Celina Peña

Good morning, my name is Celina Peña with LiftFund. We are a nonprofit community development financial institution based in Texas, headquartered in San Antonio, and serve 14 states in the South Central U.S. We were founded to level the financial playing field through entrepreneurship in 1994 and since inception have provided over $300 million in capital to over 20,000 entrepreneurs—we provide vital resources and affordable business loans to our diverse customers. In the greater Houston region, we’ve provided $4 million to 3,000 small business owners.

As a community loan fund, we provide direct business lending ranging from $500 to $500,000 and are a partner with SBA on all their small business lending products including the SBA 504 and SBA 7a Community Advantage. 38% of our borrowers are women, 85% are entrepreneurs of color, and over 36% are startups, less than 2 years in business.

Financial inclusion in Texas and the U.S. requires steadfast investment and participation at the local, regional, and national level now more than ever. Studies by the Federal Reserve indicate that while entrepreneurs of color and women owned businesses are the fastest growing segment in entrepreneurship and their credit inquiries are increasing, their access to credit remains significantly lower and they are utilizing their own assets and accessing financing that is costly and asset stripping not leading them to scale.

Organizations like LiftFund are here to change that narrative and our direct services and products are only one piece of the puzzle in removing barriers. LiftFund’s vision of financial inclusion requires us to innovate and create partnerships at the system level to combat poverty and change the discourse of underbanked, disenfranchised entrepreneurs.

I’d like to focus my time on how we are moving the needle in removing barriers and creating inclusion through partnerships and creative solutions. These partnerships and strategies are the second part of a complex puzzle to solving for financial inclusion.

I ask the committee to consider investing and providing equity through government agencies into works like these that are unique in changing the narrative of financial inclusion, which also means insuring a CRA policy that is transparent, accountable and reflective of the continued disparities of accessing credit. Currently, LiftFund has 36 bank investments totaling more than $35 million and a local bank purchasing close to 9 million in LiftFund business loans. Without CRA, the National Community Reinvestment Coalition (NCRC) estimates Low to moderate income neighborhoods could lose up to $105 billion in home and small business lending nationally – that equates to a $24 billion loss in CRA commitments in the states LiftFund serves.

The first partnership is with Woodforest National Bank, headquartered here in the Woodlands, Texas. Woodforest has purchased over 650 loans totaling close to nine million dollars from LiftFund to ensure that they are serving their community through investment with LiftFund lending. LiftFund provides the loan to the client; Woodforest purchases the funds as it demonstrates the criteria of service and impact per CRA. LiftFund services the life of the loans with no recourse. These loans are non-guaranteed loans.
The second partnership is with a platform called Cnote. A California based Benefit Company dedicated to helping people, institutions and advisors invest in women and entrepreneurs of color with a return. The goal of Cnote is to increase investments into CDFIs like LiftFund. LiftFund currently has a $4.7 million investment with Cnote dedicated to serving minorities and women of color entrepreneurs. Cnote, like LiftFund is woman owned and creating a space where again, investments can be made that create inclusivity with capital while providing a return on investment.

As we are in the midst of Hurricane season, I would be remiss if I didn’t bring up our disaster recovery program. Disasters bring resiliency, but that resiliency can’t be made without donors and investors and after Hurricane Harvey three major partners came together to create a complicated and impactful capital stack in serving micro and small business in the Texas Gulf Coast. LiftFund had clients impacted by Harvey and two national banks stepped up to the plate in providing amazing support to build our Disaster Relief Loan Product. Goldman Sachs provided a five million dollar loan at zero percent and JP Morgan Chase provided one point two million in equity to serve the population. Along with these two national banks, Rebuild Texas and One Star provided operational funding and a guarantee fund that allowed us to provide over $7 million in capital to 322 small businesses impacted by Harvey. The US economic development agency recently awarded us a grant and a revolving loan fund to continue this work into the next phase for $3.5 million and we have launched Ascend 2020 with JP Morgan Chase, Houston Community College, the City of Houston and others in scaling minority contracting and rebuilding housing stock locally.

LiftFund’s work requires a fine balance — we raise debt to provide debt — that is the community loan fund model, we are working to shift that paradigm and have created the Dream Makers Fund, a permanent revolving loan fund where local donors and investors can provide equity into a local fund dedicated to serving entrepreneurs who are underbanked. Our goal over the next three years is to raise $5 million in equity and revolve the loan fund permanently in key cities, including Houston. This will allow us to reduce the tension on our balance sheet and meet the demand in providing capital and leveling the financial playing field to specific populations we serve.

While we face challenges in removing all barriers of inclusion, our biggest success is our investment in technology, many times minority; women owned firms aren’t able to scale because of resource limitation. Our partners from across the nation, including major banks have invested in our work and in doing so we have created the only U.S. micro-business risk model. You’ve heard of big data from online lenders and risk profiles created by companies like Lexis Nexis, our risk model specifically focuses on serving underbanked entrepreneurs in the U.S. and we have a 96% repayment rate when we couple this risk model with our underwriting.

As you can tell, we are hard at work to bring a more inclusive economy. It is important for the U.S. to take innovation into financial inclusion — we take pride in being part of the innovation in finding solutions for our customers and for investors who can trust us in serving a population that deserves inclusion.

When we think about our country 20 years from now, I am hoping that these strides, partnerships and innovation will come to scale, and we must remain vigilant. As we continue to explore financial inclusion, we must take into account the evolution of a growing online and phone economy that connects LMI communities to potential asset stripping, we must rethink our models of inclusion to be place based and accessible no matter when and where and we must think about financial inclusion in
these terms in order to let entrepreneurs, no matter their life circumstances be included in the economy. I hope the insights provided today, give you a better perspective on how partnerships and CDFIs like LiftFund can play a role in this space.

Thank you for this opportunity to provide testimony.
The Subcommittee on Oversight will hold a Field hearing entitled, “Examining Discrimination and Other Barriers to Consumer Credit, Homeownership, and Financial Inclusion in Texas” on Wednesday, September 4, 2019, at 10:00 a.m. (CDT) at the Fountain Life Center located at 14083 South Main Street, Houston, Texas 77035. I am writing to confirm your participation as a witness.

We anticipate that the hearing will examine access to affordable housing, credit, and banking services in low and moderate-income (“LMI”) neighborhoods. The witnesses will address discrimination and other barriers to homeownership, credit access, and financial inclusion. The hearing will examine, among other data, recently published research on the perpetuation of systemic impediments to and disparities in wealth, homeownership, and economic opportunity.

In addition, the hearing will explore potential solutions that would promote financial inclusion and strengthen financial institutions that serve LMI communities, such as minority depository institutions (“MDIs”) and community development financial institutions (“CDFIs”). The number of MDIs has declined in the last decade, raising the policy challenge of how best to bolster the health and soundness of these community institutions that provide critical services to consumers and businesses underserved by traditional banks and financial services providers.

Your oral testimony should be summarized in the form of a five-minute opening statement to be given at the beginning of the hearing. You should also prepare a written version of your oral testimony. The written testimony may consist of a verbatim transcript of your opening statement or, if you have additional information that you would like included in the record, it may expand on your oral testimony as you see fit. This written testimony should be submitted to the Subcommittee by e-mail no later than Friday, August 30, 2019.
Testimony of Noel Andrés Poyo, Executive Director of NALCAB – National Association for Latino Community Asset Builders before the Subcommittee on Investigations and Oversight of the House Financial Services Committee on the topic: Examining Discrimination and Other Barriers to Consumer Credit, Homeownership, and Financial Inclusion in Texas.

Mr. Chairman, Ranking Member, Honorable Members of the Subcommittee and other Members of Congress present here today, thank you for this opportunity to speak with you.

My name is Noel Andrés Poyo. I am the Executive Director of NALCAB – National Association for Latino Community Asset Builders. NALCAB is a national non-profit organization, headquartered in San Antonio and with offices in Washington, DC, with a mission to strengthen the economy by advancing economic mobility in Latino communities. NALCAB is the hub of a national network of more than 120 mission-driven organizations in 40 states and DC that build affordable housing, address gentrification, support small business growth, and provide financial counseling on issues such as credit building and homeownership. Our vision is to dramatically scale the flow of public and private sector capital that responsibly meets the asset building needs and opportunities in the communities and families we serve. We achieve our mission and vision by strengthening and coordinating the capacity of our member Network to deploy capital; and, by influencing investors and policy makers with research, advocacy and technical advice.¹

Let me begin by expressing appreciation that you are bringing the business of Congress to the people through field hearings. This demonstrates a special kind of respect for the people who sent you to Washington, and who may not have the resources to go see your work there. Thank you for holding this hearing here today on a topic that is of seminal importance not only for the State of Texas but for the entire nation.

Earlier, you heard testimony on barriers to credit, affordable housing, and banking services, especially for low- and moderate-income people. I hope that my testimony helps to set the stage for a discussion of solutions to these challenges.

It is important to recognize that the future strength and competitiveness of the US economy relies on achieving far broader financial inclusion in our economy. To illustrate the point, consider that, Hispanics make up 18% of the US population and have significantly fewer assets, lower income and strikingly less access to credit than the non-Hispanic White population. At the same time, Hispanics are driving our nation’s demographic growth and made up approximately half of the total population growth in the US between 2008 and 2018.² Hispanics are projected by the Census to make up 28% of the US population in 2060.³ This trend is even more dramatically present in

¹[www.nalcab.org](http://www.nalcab.org)
Texas. It is a pressing macroeconomic concern that Hispanics are the state’s and the nation’s youngest and fastest growing major population segment and yet are struggling to rebuild their wealth in the post-recession era. This is the same reality for African Americans, for significant segments of the Asian Pacific-American population and for many rural communities, among others. This is not a Latino thing, or rural White thing, or an African-American thing, this is a future of US economy thing. So, I will say this again: the future strength and competitiveness of the United States of America relies on us achieving far broader financial inclusion in our economy. We are all in this together, and the fact is, our diverse American communities are a good investment. NALCAB highlights this with the hashtag #LatinoEconomicEngine.

Advancing financial inclusion requires two equally important things: 1) fair access to capital and credit; 2) the capacity to utilize capital and credit to build assets. Some people in our economy have had the good fortune of relatively easy and fair access to capital as well as strong capacity to utilize that capital. Those people buy homes, start businesses and build assets; and that is good for our economy. How much better would it be for our economy if everyone shared in that privilege. It should be a highest-level priority of our domestic economic policy to open fair access to capital and credit for people who do not already have that privilege. This includes low- and moderate-income people; people whose families have experienced a legacy of being excluded from the economy, both legally and de facto; this includes immigrants. To see the economic benefit, we must also support these populations to build their own capacity to take greatest advantage of fair access to capital and credit.

One size does not fit all when it comes to effective solutions for expanding financial inclusion in the diverse communities of our nation. We need local and culturally-relevant solutions. I want to focus particularly on the role of Community Development Financial Institutions or CDFIs as well as Minority Depository Institutions – minority-owned banks.

CDFIs are private financial institutions that deliver responsible, affordable finance to help underserved people and communities join the economic mainstream. CDFIs move money into rural, urban, and Native communities that mainstream bank financing does not reach. These organizations create jobs, build affordable housing, support small business growth, advance community-based health care, and provide access to banking services across America.4 Today, there are well over 1,000 CDFIs certified by the U.S. Department of the Treasury’s CDFI Fund with more than $150 billion in assets. CDFIs include non-profit loan funds, community development credit unions, banks and venture capital organizations. As a part of the Treasury certification process, CDFIs must demonstrate that their governing boards reflect and represent the communities they serve. NALCAB, the organization I lead, is a certified CDFI, as are more than 35 of our member organizations. NALCAB collaborates closely with the Opportunity Finance Network (OFN) the national umbrella organization for CDFIs.5

Minority Depository Institutions are banks controlled by Black Americans, Asian Americans, Hispanic Americans, or Native Americans. MDIs are identified either based on majority-
ownership by individuals in these minority groups or based on the fact that a majority of the Board of Directors is minority and the community that the institution serves is predominantly minority. The Federal Deposit Insurance Corporation published an important report on MDIs in 2019 which documented that MDIs lend more to borrowers who live in LMI census tracts and to minority borrowers as compared to non-MDI banks. The FDIC recognizes approximately 150 MDIs, a number of which are also certified as CDFIs by the US Department of Treasury.

CDFIs and MDIs have a proven and prudent track record of investing in LMI and minority communities and businesses, including through difficult economic times. When mainstream finance pulled back from LMI and minority communities in the wake of the Great Recession, CDFIs and MDIs continued to lend in their target markets and consistently demonstrated low loan loss rates. These institutions know their target markets and are better equipped to measure and mitigate risk among the borrowers they serve. This includes providing services to build the capacity of borrowers. CDFIs and MDIs make up a critical part of the ladder of economic inclusion in this country, providing realistic opportunities for LMI and minority borrowers to connect to the financial mainstream. The success of CDFIs and MDIs represents a return on investment from federal efforts that support these institutions, including appropriations for the US Treasury’s CDFI Fund and efforts by the FDIC and others to support MDI-partnerships in the banking industry. It is also a dramatic demonstration that representation in the board room matters. Imagine how we could advance far broader financial inclusion if the board rooms of the Federal Reserve Banks and our nation’s largest financial institutions better represented our nation’s diverse communities.

While the local, culturally-relevant efforts of CDFIs and MDIs are critical solutions, it would be a mistake to lose focus on the larger macro-economic context. I would like to highlight several macro-economic matters that are critical for opening fair access to capital and credit to LMI, minority and immigrant populations.

- **Monetary Policy** – We often think of the monetary policy set by the Federal Reserve in the context of the stock market and international finance. In fact, monetary policy is as consequential for LMI populations as it is for everyone in our country, and sometimes more so. We need to be cognizant of the impact of rising rates on the potential for LMI workers to secure and maintain employment. On the other hand, we must be concerned with the extent to which low rates have the potential to incentivize risk taking that creates “bubbles” which, when they “pop,” typically harm LMI populations first and worst. We need more focus and research to understand the consequences of monetary policy across the full spectrum of household incomes and circumstances. Former Chair Yellen and Chairman Powell have taken important strides in this regard. In a recent speech at the Jackson Hole economic Policy Symposium, Chairman Powell pointed to the disaggregated employment rate and wage growth among LMI and minority communities as key metrics for measuring the breadth and depth of a strong economy.

- **Trade and Immigration Policy** – The current Administration’s erratic approach to trade and immigration policy have created significant headwinds for our economy and have had targeted negative impacts in rural communities and in Texas and other border states, among other parts

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of our country. The President of the Federal Reserve Bank of Dallas recently commented on the fact that our nation’s trade and immigration policies are the fulcrum of current economic conditions and are increasing the risk of a severe slow down and, further, that monetary policy is unlikely to be able to counteract the negative impacts of these policies.

- **A Strong and Independent Consumer Financial Protection Bureau (CFPB)** – A truly free and efficient market has clear rules of the road that prevent abuse. The CFPB plays a central role in placing reasonable limits on predatory activity that strip wealth from LMI communities, including such practices as payday lending, auto title lending and abusive collections practices. We should all be concerned by actions being taken by the current Administration to eliminate prudent financial safe guards for consumer financial markets. On these issues, NALCAB collaborates closely with the Center for Responsible Lending, where I serve as a member of the Board of Directors.⁷

- **GSE Reform** – The manner in which the Congress decides to bring Fannie Mae and Freddie Mac out of conservatorship will have enormous implication for our economy and will fundamentally shape what housing opportunities are available to LMI populations. The GSEs define the terms of access to mortgage credit in the US. It is critical that GSE’s continue to have a statutory “duty to serve” populations that experience challenges in accessing mortgage credit. If we are serious about broad financial inclusion, the GSEs must maintain measurable affordable housing goals and be extremely cautious with regard to “risk-based pricing” of mortgage credit, based on risk measurement methodologies that reflect broader biases in our financial system against LMI and minority borrowers.⁸

- **Community Reinvestment Act (CRA)** - We are at an important moment in the public policy discussion around the need to strengthen and modernize the CRA. NALCAB participates with other national and regional organizations in a Collaboration to Strengthen the CRA. Any modernization effort must put the credit needs of low- and moderate-income people and communities of color first. There is a pressing need for Congressional oversight of the Office of the Comptroller of the Currency’s (OCC) recent efforts to change the implementing regulations for CRA. The OCC’s unilateral approach to reform, without the concurrence of the Federal Reserve and the FDIC, will undermine the CRA because it will create uncertainty and inconsistency among the prudential regulators. Further, Congress should consider extending community reinvestment requirements to the largest, non-bank financial institutions including mortgage companies, insurance companies and credit unions.

Each of these significant policy issues will profoundly shape the opportunities for LMI populations, rural communities, minorities and immigrants to participate more fully in our economy.

Thank you for the opportunity to present this testimony.

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⁷ [https://www.responsiblelending.org/research-publication/comment-cfpb-proposed-repeal-payday-lending-rule](https://www.responsiblelending.org/research-publication/comment-cfpb-proposed-repeal-payday-lending-rule)

⁸ [https://www.responsiblelending.org/research-publication/testimony-gses-and-ginnie-mae-provide-important-access-mortgage-credit](https://www.responsiblelending.org/research-publication/testimony-gses-and-ginnie-mae-provide-important-access-mortgage-credit)
Thank you, Chairman Green, for allowing me to testify about discrimination and other barriers to consumer credit, homeownership, and financial inclusion in Texas. In addition to my current role as President and CEO of the Houston Area Urban League, I had the privilege of serving this community as a member of our city council and as vice mayor pro-tem. I have considerable insight into the barriers that prevent Houstonians from sharing in the great prosperity of our city. A longer version of my testimony has been submitted to the committee, which identifies sources of discrimination and barriers and suggests solutions. I will use my brief time, however, to highlight a few issues of particular concern.

The mission of the Urban League is to enable African Americans and other underserved communities to secure economic self-reliance, parity, power, and civil rights. We help our constituents attain economic self-reliance through homeownership, job training, good jobs, entrepreneurship, and wealth accumulation. Our views and recommendations are based on decades of direct program experience in urban communities across the country and our historic role in documenting and fashioning remedies to address our nation’s long and unfortunate
history of discrimination against communities of color. The subject of today’s hearing falls squarely within the mission of our organization, both nationally and here in Texas.

There is a serious lack of access to affordable credit in communities of color.

The 2008 financial crisis, during which Americans lost more than $19 trillion in household wealth, impacted minorities disproportionately. Perverse incentives in the secondary mortgage market drove unscrupulous brokers and loan officers to target otherwise creditworthy borrowers in communities of color with abusive and predatory loans.

The result of targeting minority borrowers with predatory mortgage products, in effect, set these same borrowers to be disproportionately affected when the housing market crashed. African American and Latinx borrowers were much more likely to receive high interest subprime loans and loans with features that are associated with higher foreclosures.

The lingering effects on communities of color have been devastating. In Texas, low and middle income families are having particular trouble finding affordable apartments to rent or houses for which they can secure a mortgage. Houston has among the nation’s most extreme income gap between renters and homeowners; a typical renter’s income of $39,500 is 64% of a typical homeowner’s income of $61,470. The city’s black homeownership is about 32%, far lower than before the 2008 financial crisis. As in many cities, African Americans here are more likely to lose their homes to foreclosure, and they continue to face barriers accessing credit today. Houston residents are also facing the economic hardships brought about by Hurricane Harvey, which increased demand for houses and helped push up real estate prices.
Redlining remains a serious problem.

In 1977, Congress passed the Community Reinvestment Act (CRA) because of concerns that federally-insured banking institutions were not making enough credit available in the communities they served. Disinvestment practices allowed depository institutions to accept deposits from African Americans in the inner-city, and reinvest them in more affluent, suburban areas.

Redlining prevented African Americans and others from securing affordable homes and mortgages in decent neighborhoods, and purposely segregated communities. Segregated into slums, African Americans were concentrated into poverty by intentional discriminatory policies. They were denied credit to purchase homes, start small businesses, and to meet everyday living expenses. Blight, crime, and decreased property values resulted. Cities were left behind, with no adequate tax base for basic services accelerated community deterioration.

To be clear: the CRA is one of the most important civil rights and economic justice laws of the 20th century. In the 21st century, however, the law is in dire need of reform. CRA-regulated institutions have not met the needs of the community, allowing an array of nonbanks to enter the marketplace, many of which provide high-cost and often predatory products. Simply put, CRA can and must do more.

Housing segregation reinforces racism and diminishes us as a nation. Under pressure from the insurance industry, the Department of Housing and Urban Development (HUD) has proposed weakening its regulation of disparate impact claims under the Fair Housing Act. If this rule
becomes final, victims of housing discrimination will have very limited judicial remedies; their access to the courts will be all but gutted.

The disparate impact rule, which was formalized by the Obama Administration and upheld by the Supreme Court holds that a practice can constitute discrimination if it has a discriminatory effect on individuals protected under the Fair Housing Act regardless of whether there is intent to discriminate. In doing so, the rule requires that property owners and their agents provide protected classes under the Fair Housing Act an equal opportunity to buy or lease their property lest they face fair housing violations.

Due to the broad reach of the Fair Housing Act, the disparate impact rule has the potential to be an important tool for reducing housing segregation and discrimination in virtually every community in America. HUD Secretary Ben Carson recently announced his intention to eliminate the disparate impact rule as we know it.

PUBLIC HOUSING:
The 1.1 million housing units operated by Public Housing Authorities (PHAs) nationwide are in need of repair and modernization. Funding to address necessary maintenance repairs at PHAs is generally under the purview of Congress through the Public Housing Capital Fund, which aims to help PHAs maintain their operations and address any backlog in capital repairs. However, this program is severely underfunded.
The most recent study by HUD on the public housing capital backlog was published in 2010 and found that the nationwide backlog of deferred maintenance to address needed repairs and improve living conditions at PHAs stood at $26 billion and would grow at a rate of about 8.7%, or $3.4 billion, annually, if not addressed. According to the same study, 10,000 public housing units are lost each year each year due to disrepair. The key drivers of the capital backlog in this report were needed household improvements that ensure human health and safety.

This is why Chairman Green’s legislation, the Housing Infrastructure Act of 2019, which calls for these type investments should be passed into law.

I want to thank Chairman Green for holding this hearing. I am heartened that in the opening months of your leadership of this committee, there is renewed attention to Congress’s responsibility to oversee the financial marketplace, increase access to capital, and protect Americans from the abuses posed by bad actors in the market.
Testimony of Jeff Smith
President and CEO, Unity National Bank

On Behalf of both Unity National Bank and the National Bankers Association

Before the House Financial Services Oversight and Investigations Subcommittee

“Examining Discrimination and Other Barriers to Consumer Credit, Homeownership, and Financial Inclusion in Texas”

September 4, 2019
Chairman Green, Ranking Member Barr, Chairwoman Waters, and members of the Subcommittee, good morning and thank you for this opportunity to testify on potential solutions for promoting financial inclusion and strengthening financial institutions that serve LMI communities, such as minority depository institutions or “MDIs” like Unity National Bank.

I am Jeff Smith, and I serve as the President and CEO of Unity National Bank (“Unity”). Unity was originally founded in 1963, and is the only African-American owned banking institution in Texas. Unity has approximately $104 million in assets with approximately 11,000 customers. Unity currently has three branches: one in Houston, one in Missouri City, and one in Atlanta.

Congress and federal regulators have the tools to bolster the health and soundness of our institutions whose mission remains as critical as ever. As costly and more predatory forms of credit and financial services for families and small businesses proliferate, the need for trusted, mission-oriented lenders like Unity increases. Our track record and our value proposition notwithstanding, many of our institutions are finding it difficult to survive and are in need of policy interventions that alleviate barriers to accessing capital and provide targeted relief.
ACCESS TO CAPITAL REMAINS THE TOP CONCERN FOR AFRICAN-AMERICAN OWNED MDIs.

Access to capital remains Minority Depository Institutions’ top concern -- particularly for African-American owned banks.

The Chicago Fed’s 2018 study on capital-raising amongst MDIs underscores our long-standing challenges. Their research found that African-American owned banks had retained no net income every year from 2007 to 2016.

We believe that there are a number of steps Congress can now take to encourage equity investments in our institutions, including:

- Exempting MDIs and CDFIs under $3 billion from the Bank Holding Company Act’s change-of-control provisions encouraging larger investments in our institutions;
- Amending the Investing in Opportunity Act so that MDIs can be designated as Qualified Opportunity Zone Businesses (“QOZBs”) and become eligible for equity investments; and,
- An investment tax credit for acquiring preferred shares in CDFIs and MDIs.
THE COMMUNITY REINVESTMENT ACT COULD BE BETTER UTILIZED TO HELP OUR INSTITUTIONS RAISE CAPITAL, BUT IN ITS CURRENT FORM, THE CRA FAILS TO MEET OUR INSTITUTIONS’ NEEDS.

Regulators and many in the banking industry often view the CRA’s flexibility as a virtue, but in our experience, the CRA’s flexible standards regarding what constitutes CRA-qualified investments in MDIs partly explains why so few banks look to MDIs and CDFIs as a part of their CRA program.

While various forms of majority depository institution investments in MDIs are CRA-qualified, the types of investments that our institutions need – preferred stock purchases – receives the same treatment as other types of MDI investments. We firmly believe that stock purchases should be singled out as a priority for the kind of investment in MDIs that CRA should specifically encourage.

This prioritization could be done by Congress singling out stock purchases in an amendment to Section 2903(b) as automatically receiving positive CRA consideration and urging prudential regulators to increase the CRA credit provided for MDI stock purchases. Doing so aligns the CRA’s potential as a tool to help address our top concern and sends a clear signal to CRA officers regarding the kinds of investments that will be favorably treated by federal regulators.
CONGRESS CAN TAKE A NUMBER OF ADDITIONAL STEPS NOW TO SUPPORT MDIs.

In addition to addressing access to capital, additional, targeted relief measures should be considered. Such relief should include:

- Simplifying capital ratios for community banks;
- Streamlining BSA and AML reporting and call form reporting for institutions below $1 billion;
- Lowering the barriers to participation in the Minority Bank Deposit Program and encouraging more agency participation in the Program;
- Requiring that financial institutions acting as Financial Agents to the Treasury Department participate in Treasury’s Financial Agent Mentor Protégé Program and partner with MDIs with assets under $1 billion;
- Modernizing the Federal Deposit Insurance Act’s approach toward brokered deposits making it easier for smaller MDIs to access to a more diverse base of deposits; and,
- Safely transitioning the remaining institutions out of Treasury’s Troubled Asset Relief Program and Community Development Capital Initiative.
CONCLUSION

We applaud Congressman Green, his leadership of the Oversight Subcommittee, and his long-standing advocacy on behalf of LMI communities and MDIs like Unity.

We lose MDIs every year despite Congress and federal regulators having a broad range of tools at their disposal to support MDIs. We cannot have meaningful conversations about financial inclusion without committing ourselves to ensuring the vitality and viability of MDIs as so many of our banks act as banks of last resort for so many in our communities.

I firmly believe that the policy interventions outlined above would radically transform the operating environment of our institutions and dramatically expand our ability to meet the growing credit needs of the communities that depend on us.

I look forward to answering any questions.
Testimony of

Hua Sun

Associate Professor of Finance, Iowa State University

Ames, IA 50011

Before the

Subcommittee on Oversight and Investigations

of the

Committee on Financial Services

U.S. House of Representatives

Examining Discrimination and Other Barriers to Consumer Credit, Homeownership, and Financial Inclusion in Texas

September 4th, 2019

Chairwoman Waters, Ranking Member McHenry and Members of the subcommittee, thank you for giving me the opportunity to testify at this hearing. My name is Hua Sun, and I am an associate professor of finance at Iowa State University. I earned my Ph.D in real estate from University of British Columbia and my research interests include mortgage lending and housing economics. I am pleased to have this opportunity to discuss our findings on potentially disparate lending practices to same-sex mortgage borrowers.

In April, 2019, I published a paper jointly with my co-author at the Proceedings of National Academy of Sciences of USA (PNAS) that looks at this issue. We found that compared to heterosexual borrowers of similar profiles, same-sex borrowers are statistically more likely to be rejected when they apply for a loan. Further, when approved, it was shown that they pay higher interest
rates and/or fees on average. Lastly, we were unable to find statistical evidence that same-sex borrowers are more risky to lenders than comparable hetero-sex borrowers.

The primary data used in our loan underwriting analysis is a 20% random sample from the publicly available Home Mortgage Disclosure Act (HMDA) data between 1990 and 2015. It gives us over 30 million observations on residential loan application records that involve both a borrower and a co-borrower. The study used the mandatorily disclosed sex information to distinguish same-sex borrowers and hetero-sex borrowers. We then merged the HMDA data with the publicly available Fannie Mae single-family loan performance data on over 400,000 approved loans originated since 2004. The merged data afforded us the opportunity to examine the financing cost and succeeding loan performance. Our findings show that, compared to hetero-sex borrowers with similar characteristics, same-sex borrowers experience about a 3% to 8% lower approval rate. Further, among the loans that are approved, each year lenders charge a higher interest and/or fees to same-sex borrowers in a range between two to twenty basis points. Our inferred dollar value on the higher cost burdened by same-sex borrowers nationwide is equivalent to an annual total in a range of $8.6 to $86 million. Yet, we were unable to find evidence that same-sex borrowers are more risky. Indeed, our data shows that same-sex borrowers appear to be slightly less risky on average as they exhibit similar default risk but lower prepayment risk than comparable hetero-sex borrowers.

As sexual orientation is not disclosed in the data, we calculated the correlation between our inferred same-sex population density and a 2015 Gallup LGBT population survey at the state level. We found that, depending on the measure used, the correlation is between 0.61 and 0.85. As a result, it is our hope that this research into the lending experiences of same-sex borrowers will shed a light on the adverse lending practices applied to LGBT borrowers. As another robustness check, and in order to rule out the possibility that a borrower and a co-borrower are relatives, we only looked at same-sex borrowers that are of a different race. In this instance, we continued to find a significantly lower approval rate on this restricted sample.
One limitation on HMDA data is its lack of borrower’s information such as credit history. In an effort to minimize this, we cross-validated our finding of lower approval rate by using the data on a sample of borrowers in the Boston MSA in 1990. This data was collected by the Federal Reserve Bank of Boston. Previously this Boston-fed data has been used by many academic researchers to study minority lending discrimination. The strength of this data is that it has detailed information such as a borrower’s credit history, work experience, and educational background. The Boston data revealed that, after controlling for the essential borrower and mortgage characteristics, same-sex applicants are 73.12% more likely to be denied when they apply for a loan than hetero-sex borrowers.

We also looked at loan underwriting over a series of time periods and found that the lower approval rate to same-sex borrowers is persistent over time. Indeed, the HMDA data implies that the gap is even larger in 2015 than in 1990.

In regard to lending practices on agency vs. non-agency loans, we found that the largest gap is on conventional loans, where the raw approval rate (i.e., without any econometric adjustment) on same-sex borrowers is about 7% lower than those on hetero-sex borrowers. The gap is about 4% on VA loans, and about 0.8% on FHA loans.

To summarize, our study documents some statistically and economically significant findings on adverse lending outcomes to same-sex borrowers. The lending disparity appears to be throughout the life cycle from applying to paying off a loan. Like any empirical research, our study is subject to limitations such as potential omitted variable bias. That said, I believe these findings are still concerning. Given that the current federal credit protection laws such as Fair Housing Act (FHA) and Equal Credit Opportunity Act (ECOA) do not explicitly list sexual orientation as a protected class, it is my wish that our study and this testimony will help initiate a meaningful discussion on the need, and the means, to provide stronger protections for same-sex borrowers.
August 30, 2019

To: Jean Marter
Office of Chairwoman, Maxine Waters
House Subcommittee on Oversight and Investigations

For: The Testimony of Mr. John Yen Wong on Wednesday, September 4th, 2019 at 10:00AM Before the Subcommittee on Oversight and Investigations

Thank you, House Committee members. It is my distinct privilege to speak on behalf of the Asian Real Estate Association of America (AREAA) and the Asian American and Pacific Islander (AAPI) communities we represent. For over 16 years, AREAA has represented over 17,000 real estate and mortgage professionals from across the country. AREAA is the largest Asian American professional association in the US and made up of professionals working directly with AAPI families in the real estate and mortgage lending. Daily, AREAA members work with clients who experience the discrimination and homeownership barriers I come to testify for.

AREAA’s goal is to become a resource to the House on all Asian American issues, beginning with homeownership. Our mission is to support Asian American to overcome barriers to homeownership and become homeowners. Together, our community was responsible for the inclusion of the language preference question on the Uniform Residential Loan Application (URLA) form. And although we regret this has been retracted, AREAA will continue the work of language access moving forward. AREAA was also successful in our NO OTHER campaign, in championing the addition of a distinct category for Asian Americans in the US Census Quarterly Homeownership Report.

AREAA’s goals and ambitions are to create a better understanding between the AAPI consumer and the lending and government institutions that serve them. With better data and disaggregated insights on our diverse community, not only together can we improve homeownership rates for the AAPI community - but also open up vast new financial opportunities for lenders in housing and lending markets. Access to language resources needed in the mortgage process and lack of acceptance of alternative forms of credit are two of the biggest hurdles Asian Americans face in becoming homeowners. Although Asian Americans still experience racism, discrimination, and are directly impacted by the re-interpretation of disparate impact – I will save my remarks and answer your questions shortly.

First, the mortgage process is a lengthy and confusing process that even native English speakers still struggle understanding. Providing language resources for minority groups like AAPI applicants allows families to successfully complete their applications, understand what they are signing, and prevent mortgage failures. Over 77% of AAPI speak one of the 26 Asian or Pacific Island languages other than English. HUDA Data shows us that Asian American mortgage applicants face the highest proportional denial rates due to incomplete applications.
Each year, AREAA agents and brokers see families bring their children to closings and ask them to translate their documents. Census reports have shown us that 19% of our community speak English well, but not very well, while 12% claim to not speak English well. Providing language resources to an already complex process with a wide lexicon of terms is the first step to increasing AAPI homeownership.

Second, many Asian Americans, especially foreign-born immigrants, come from cultures that do not take on debt. In fact, when looking at denial rates of mortgage applicants based on insufficient credit histories, Asian Americans are denied at double the rate of other demographics. Many AAPI buyers lack sufficient length and mix of credit required by most mortgage lenders to be approved, despite AAPIs being the highest-earning demographics in our nation. HMDA Data shows us that AAPI mortgage applicants proportionally face the highest denial rates due to unverifiable credit information. AREAA is pleased to see FHFA announce Fannie and Freddie will consider alternatives forms of credit other than FICO. However, this is just the start.

Our calls to action have been consistent for years. First, support the expansion of access to language resources, like the FHFA multi-year language access plan. This will create valuable language resources and tools for minority families to effectively complete their mortgage applications. AREAA urges this FHFA’s Language Access Plan be continued. Then, continue the expansion of accepting alternative credit models in the mortgage process. Both these actions will open up vast new opportunities for AAPI applicants to overcome traditional barriers to homeownership and enter into mortgage markets as effective, prosperous consumers to lenders.

In closing, Asian Americans are the fastest-growing demographic in the United States and will outpace Hispanic Americans to become the largest minority group according to Pew Research Center and Census projections. In Texas alone, AAPI populations grew by over 71% between 2000 and 2010. Asian American and Pacific Islanders continue to be the most active minority demographic in the housing market, both in total applications and total-dollar volume originated, yet still fall behind White Americans by 15.4% in homeownership as of Census’ Q2 data. Despite being the fastest-growing, highest-educated, and highest earning demographic in the nation, AAPI families still face solvable issues that cause them to fall 15.4% behind in homeownership.

Thank you for allowing me to speak with you here today. I hope that my remarks can continue to AREAA’s work to bring more accessible pathways of homeownership to the AAPI community.

John Wong
AREAA National Chair, Emeritus
July 8, 2019

David Woolf
Principal Deputy Assistant Secretary
Office of Community Planning and Development
U.S. Department of Housing and Urban Development
451 7th Street S.W.
Washington, DC 20410

Dear Principal Deputy Assistant Secretary Woolf:

I am writing to enlist your help in adopting a commonsense approach to providing disaster recovery assistance to smaller households. HUD, the City of Houston, and our State of Texas partners at the General Land Office need to work together to ensure that Houston has a healthy housing stock for the future, and that vulnerable Houstonians who receive much-needed recovery funds after Harvey are not forced to unreasonably downsize longstanding family homes as a condition of receiving assistance.

In Houston, many of our lower-income seniors live in single family homes that are their only asset. They have raised their families in these homes and hope to pass them on to future generations. We recognize that household size at the time of a disaster event is one factor — but not the only factor — that should determine the size of the home that is rebuilt.

Our desired standard is to rebuild a three-bedroom home for households of four or fewer people whose homes had three or more bedrooms before the storm. This approach will encourage participation in our programs, preserve homeowner value, provide a healthy housing stock for Houston’s future, and is fair to the taxpayers investing in our recovery.

While this is the standard outlined in our Homeowner Assistance Program guidelines, we are subject to rules set by the Texas General Land Office (TGLO). GLO requires occupancy as the sole factor for determining the size of rebuilt homes.

Under GLO rules, people who have lived for many years in a three- or four-bedroom home would be forced to accept a two-bedroom home as a condition of receiving Harvey recovery assistance. We know from our own outreach and concerns expressed by housing advocates in Houston that this approach will discourage participation in our programs by those who need them most.

Along with Harris County, the City of Houston has sought a waiver of this requirement from GLO, in favor of a commonsense approach that is fair to both homeowners and taxpayers. The City’s waiver request is to build three-bedroom homes as the standard home, with variations from that standard depending on household size. For example, if a two-person household had a three- or four-bedroom home before the storm, the new home should be at least two bedrooms. We believe that this commonsense approach is a fair and reasonable standard.

Thank you for your attention and your assistance in achieving a recovery that is fair to all Houstonians and that encourages participation in our programs.

Sincerely,

David Woolf
prior to Harvey, the City’s recovery program would rebuild a three-bedroom home. If a household has one or two members and their damaged home had only one or two bedrooms, we would build a two-bedroom home. And if a household has between five and eight members, we would build a four-bedroom home.

<table>
<thead>
<tr>
<th>Home Size</th>
<th>Methodology</th>
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<tbody>
<tr>
<td>2 bed / 1 bath</td>
<td>Households with 1-2 members if the damaged home had 1-2 bedrooms</td>
</tr>
<tr>
<td>3 bed / 2 bath</td>
<td>Proposed program standard bedroom size, unless the above or below scenarios apply</td>
</tr>
<tr>
<td>4 bed / 2 bath</td>
<td>Households with 5-8 members</td>
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</tbody>
</table>

Rebuilding a large stock of two-bedroom homes simply doesn’t make sense for Houston’s growing population. The City’s Needs Assessment for Hurricane Harvey indicates that the average household size for the almost 98,000 low- and moderate-income storm-affected households is 2.5 people. As we build for the future, Houston needs affordable, resilient three-bedroom homes.

The City requested a waiver of the GLO’s restrictive bedroom size requirements on June 3, 2019. GLO denied the request on June 4th on the grounds that doing so may violate HUD guidance on household size, leaving the GLO vulnerable to a potential audit finding and the possibility of repaying large sums of recovery funds to HUD.

GLO and HUD each say the other has the authority to resolve this issue. HUD spokesperson Brian Sullivan is quoted in the Houston Chronicle as saying that “the department has no position on the bedroom rule, and the [GLO] is free to waive it.” At the same time, Deputy Land Commissioner Mark A. Havens wrote on June 26, 2019, “...GLO will not agree to waive the applicability of the housing unit size requirements under the GLO’s Housing Guidelines to the City-administered [Homeowner Assistance Program] without HUD approval.”

To resolve this urgent issue, we are asking HUD to provide clear guidance to GLO, the City of Houston, and Harris County that affirms a reasonable approach on rebuilding for smaller households. HUD needs confidence that if it allows the City of Houston and Harris County to rebuild three-bedroom homes for two-person households, HUD will not later seek to recapture funds spent for this purpose. The City of Houston asks HUD to allow for the reconstruction of homes according to the size standards detailed above with the use of CDBG-DR funds. As we are actively reviewing hundreds of applications, we request that HUD provide this guidance as soon as possible.

Very truly yours,

Tom McCasland

Cc: Mark A. Havens

Dear Mr. McCasland:

Thank you for your letter of July 8, 2019, regarding the city’s request for a waiver of the State’s unit requirements for homes impacted by Hurricane Harvey. The Department acknowledges that the city of Houston has different program preferences than the State. Nevertheless, HUD’s grantee is the State of Texas, and the General Land Office (GLO) is the administering agency that determines local requirements for Community Development Block Grant disaster recovery (CDBG-DR) programs.

As described in the applicable Federal Register notices, the statutory and regulatory provisions governing the State’s Community Development Block Grant (CDBG) program also apply to CDBG-DR grant funds. The Federal Register notices that govern CDBG-DR grants to Texas do not waive the following CDBG requirements that apply when the State distributes funds to Houston and Harris County, as stated below:

Under the State CDBG program regulation at 24 CFR 570.480(f), “In administering the CDBG program, a State may impose additional or more restrictive provisions on units of general local government participating in the State’s program, provided that such provisions are not inconsistent with the Act or other statutory or regulatory provisions that are applicable to the State CDBG program.”

The State’s home unit size provisions are not inconsistent with HUD’s statutes or regulations, therefore, HUD has no authority to change the State regulations. GLO is responsible for addressing any conflicts that may arise from HUD-funded activities and its disaster recovery efforts. The Department will continue to work with the State regarding your concerns.

Thank you for your interest in the Department’s programs.

Sincerely,

[Signature]

David C. Woll, Jr.
Principal Deputy Assistant Secretary
for Community Planning and Development

Community Home Lenders Association (CHLA)

Written Statement for the Record

House Oversight and Investigations
Subcommittee Field Hearing
Houston, Texas

September 4, 2019
The Community Home Lenders Association (CHLA) is pleased to introduce this statement. CHLA is the only national association that exclusively represents independent mortgage bankers (IMBs). Our members are generally smaller, community-based mortgage lenders.

IMBs are small businesses whose primary or only business is originating and servicing mortgage loans – and not cross selling other products like payday loans, credit cards, insurance, or stocks and bonds. IMBs create local jobs, serve borrowers in their local communities, and carry out the servicing of these loans in a personalized and professional manner.

Unlike banks that have deposits backed by the taxpayer (FDIC), IMBs rely on their own capital, plus outside loans, commonly made by warehouse banks. IMBs’ success is based on personal relationships and financial stability. Importantly, owners put their reputation and personal net worth on the line every day.

This statement submitted for the record explains how IMBs are critical to combatting discrimination by originating and servicing mortgage loans for minority and underserved borrowers. It also outlines policies we believe are necessary to ensure that smaller IMBs have appropriate access to capital and a level playing field, in order to maintain that role.

**Access to Mortgage Credit**

In the aftermath of the 2008 housing crisis, banks significantly cut back on their mortgage lending – with many banks imposing significant credit overlays to limit loans to higher credit quality borrowers (e.g., those with higher FICO scores) and some large banks eliminating or cutting back on their correspondent loan business for smaller lenders.

In response, IMBs stepped in to fill the void. Nowhere is this clearer than in the Federal Housing Administration (FHA) program. The independent mortgage banker share of FHA lending increased from 57% in 2010 to 85% in 2016. In doing so, it was IMBs that ensured that mortgage credit kept flowing to stabilize and turn around our nation’s housing markets.

FHA is important, because, according to the Administration’s FY 2018 Budget, “The Federal Housing Administration (FHA) provides mortgage insurance to encourage lenders to make credit available to borrowers for whom the conventional market does not adequately serve.
These include first-time homebuyers, minorities, lower-income families, and residents of underserved areas (central cities and rural areas).

The importance of IMBs in serving minority, underserved, and low- and moderate-income homebuyers has been highlighted by the Urban Institute. Its 2018 “Housing Finance at a Glance” report concluded that “Nonbank financial institutions have played an increasingly important and growing role in servicing and originating mortgages in the post-crisis years . . . But the role of nonbanks goes beyond just originating more mortgages. They have also played an important role in easing access to mortgage credit.”

The report goes on to state that “. . . the median FICO score for nonbank originations has been consistently less than the median FICO for bank originations for all three agencies” [referring to Fannie Mae, Freddie Mac, and Ginnie Mae]. The report also notes that “the median DTIs of nonbank loans are higher, indicating the nonbanks are more accommodating in the DTI dimension as well as the FICO dimension.”

It is important to keep in mind that this IMB track record of doing a better job in reaching underserved borrowers took place at a time when FHA, Fannie Mae, and Freddie Mac experienced steady profitability, with continuously declining default and foreclosure rates.

Thus, in order to ensure mortgage access to credit, it is important for Washington to pursue policies that preserve IMBs’ full and competitive access to federal mortgage programs and that provide regulatory balance.

**Preserving Small Issuer Participation in Ginnie Mae**

Ginnie Mae is an important government program for borrowers. Ginnie Mae provides a secondary market for FHA, Veterans Administration (VA), and Rural Housing Service (RHS) loans. Here too, IMBs stepped in to fill the gap when banks scaled back their mortgage operations – with the IMB share of Ginnie Mae rising from 18% in 2009 to 78% in 2018 – again, playing a critical role in helping Ginnie Mae to fulfill its statutory access to credit responsibility.

Ginnie Mae has a dual statutory duty both to facilitate access to mortgage credit by providing a secondary market for government mortgage programs and to operate in a safe and sound manner.
However, in January, CHLA released a comprehensive report on Ginnie Mae, warning that the current trajectory of its policies could result in a significant reduction in the number of smaller non-bank issuers, thus undercutting Ginnie Mae’s access to mortgage credit responsibilities, without any commensurate reduction in risk.

More recently, CHLA submitted a comment letter urging Ginnie Mae not to use stress testing for smaller non-bank issuers, noting that stress testing has historically been limited to only a market’s largest entities (i.e., those entities that present the great majority of a sector’s financial and systemic risk) and raising concerns that this could inappropriately drive more smaller issuers out of the program.

**Preserving Small Lender Access to GSE Market**

As the Administration prepares to release its GSE reform proposals, CHLA believes it is important to reiterate the importance of preserving small lender access to GSE loans in any reform process. As outlined in CHLA testimony before the Senate Banking Committee in July 2017 and before the House Financial Services Committee in December 2018, the following are critical to preserving this objective:

- No New GSE Charters, particularly for use by vertically integrated Wall Street banks and yield chasing private equity firms that could use such charters and the federal guarantee that goes with it to cut out or provide inferior pricing to smaller lenders.

- No Volume Discounts that discriminate against smaller lenders, not just for G-fee parity, but also for other participants in transactions such as MI's and any risk-sharing entities.

- No Up-Front Risk Sharing, which could be inappropriately be used to exclude or price smaller lenders out of the GSE market – reducing competition and hurting consumers. Back-end risk sharing is more efficient and avoids risks of small lender access.

Why is small lender access important to consumers? The leveling of the origination playing field that has facilitated small lender access to originate Fannie Mae and Freddie Mac loans over the last decade has served consumers well, with thousands of approved Fannie/Freddie issuers competing vigorously in the market, originating good quality loans at competitive pricing. Small lender access should not be compromised, either directly or indirectly.
Tiered CFPB Regulation Based on Size

Non-bank IMBs are arguably the most heavily regulated type of mortgage lender. IMBs are: (1) regulated by the CFPB, (2) regulated by every state in which they do business, and (3) regulated by federal lending programs (FHA, RHS, VA, Fannie, Freddie) in which they participate. Unlike banks, all mortgage loan originators at IMBs must comply with a broad range of SAFE Act requirements, including the SAFE Act test, an independent background test, twenty hours of pre-licensing courses, and eight hours of annual continuing education. Finally, IMBs are also subject to financial scrutiny by their private warehouse or MSR lenders.

As we learned from the subprime mortgage crisis, core mortgage consumer protections are essential, and Dodd-Frank imposed a significant number of new protections, most notably ability to repay a loan (QM) and a prohibition against steering of borrowers to higher priced loans.

However, consumers are not well served when the overlap of supervisory authority of IMBs becomes so significant that only the largest lenders (whether banks or IMBs) have the economies of scale to absorb overly burdensome compliance costs from a range of redundant regulators—with little or no benefit to consumers.

Over-regulation hurts smaller IMBs (and smaller banks) much more than larger IMBs (and larger banks). In recent years as mortgage profit margins shrank, heavy regulatory cost burdens drove some smaller IMBs to sell to larger lenders, affiliate with banks to gain deposit insurance, and, in some cases, even closing up shop. IMB-industry consolidation and concentration reduce competition, in turn hurting consumers, particularly those that are underserved. Too often, it means that a friendly voice over the phone and a local relationship are replaced by interaction with an call center or a series of rotating impersonal contacts with a large national lender.

When Congress created the Consumer Financial Protection Bureau (CFPB), it exempted 98% of banks (those below $10 billion in assets) from CFPB supervision. In contrast, no IMBs were exempted from CFPB oversight, despite the fact that they are regulated on federal consumer protection laws by every state in which they do business with.

Dodd-Frank did include a statutory requirement that supervision of non-banks must be “tiered,” based on factors that include a lender’s size, its volume, its product risk and the extent of state supervision. Unfortunately, the CFPB has failed to implement any explicit or transparent policies to carry that out.
As a result of this failure to fully carry out this statutory mandate for tiered regulation, small IMBs, without the same economies of scale, are having to spend significant sums of money to prepare for CFPB audits (which might not even take place) and CFPB rules interpretations that may differ from that of their host state(s). For example, CHLA submitted to the CFPB data from one of our members showing the firm spent an additional $500,000 on CFPB regulatory preparation – even though it had no interactions with the CFPB that year.

Therefore, CHLA has for some time called on the CFPB to fully carry out the tiered regulation called for by the statute, by adopting a policy that it will not conduct exams or audits for smaller IMBs or impose fines or take enforcement action against smaller IMBs unless it first receives a referral from one of an IMB’s primary state regulators or from some other federal regulator.

**Protecting Consumers by Ensuring that All Mortgage Loan Originators are “Qualified”**

One of the most critical consumer protections is the establishment of strong qualification requirements for the mortgage “loan originator” — the personal point of contact with the borrower.

Just before the September 2008 financial crisis took hold, Congress enacted the “Secure and Fair Enforcement for Mortgage Licensing Act” (the SAFE Act), which established rigorous qualifications requirements for every mortgage loan originator who works at an IMB. To get a license, a mortgage originator at an IMB must (1) pass a SAFE Act test (with real teeth and a 30 percent failure rate); (2) pass an independent background check, and (3) complete 20 hours of SAFE Act pre-licensing courses. An IMB loan originator also must complete eight hours of annual continuing education. All this is on top of additional state requirements in every state they do business in.

Unfortunately, to the detriment of consumers, Congress failed to apply any of these qualifications requirements to mortgage originators who work at banks — particularly the very same large banks that have been found to have improperly pushed risky or improper financial products — and even opened fraudulent accounts for customer.

In fact, there are thousands of registered loan originators at banks who actually failed (and never passed) the basic SAFE Act test; and it is reasonable to project that tens of thousands of bank mortgage originators that never took the test would fail it if required to take it.
We have even seen examples of banks recruiting mortgage loan originators by calling attention to the lower loan originator requirements that apply to banks.

This significant regulatory compliance discrepancy between banks and non-banks creates an obvious competitive cost imbalance. More importantly, it is incomprehensible that more than a decade after the subprime crisis, mortgage originators that are clearly unqualified are permitted to originate mortgage loans to consumers.

Therefore, the CFPB should use the requirement in Dodd-Frank that all mortgage originators must be “qualified” to require, at a minimum, that all mortgage loan originators pass the SAFE Act test and an independent background check before they can work with consumers.

In closing, CHLA appreciates the Subcommittee for holding this important hearing, and for giving us the opportunity to submit this statement. We would be pleased to follow up with the Subcommittee on any of the issues raised in this statement.
Honorable Al Green  
U.S. House of Representatives  
9th Congressional District, Texas  
2347 Rayburn HOB  
Washington, DC 20515

Re: Harris County’s Waiver Request concerning Housing Unit Size under the Hurricane Harvey CDBG-DR Program

Dear Congressman Green:

On January 15, 2019, the Texas General Land Office (GLO) received Harris County’s request for a waiver of the applicability of housing unit size requirements specified in the GLO’s Housing Guidelines to the Harris County Homeowner Assistance Program (HCHAP). On January 18, 2019, the GLO denied the County’s request for a waiver; and on March 12, 2019, Harris County Commissioners Court approved the submittal of a response letter requesting reconsideration of the County’s waiver request pointing to significant negative impacts that GLO’s Housing Unit Size Rule would have on homeowners approved for reconstruction due to flooding caused by Hurricane Harvey. Such negative impacts include but are not limited to:

a) Decreased participate home size, value and loss of equity;
b) Detrimental impact to neighboring homes and the County’s tax base;
c) Discriminatory impact on certain households and members of protected classes under the Fair Housing Act;
d) Reduced program participation resulting in delays to distribute grant funds.

On April 3, 2019, the GLO escalated the County’s waiver request to the U.S. Department of Housing and Urban Development (HUD), seeking official guidance on the matter in question. To date, HUD has not issued a formal response to the GLO. In the absence of HUD guidance, the GLO will not grant Harris County a waiver to the unit size requirement which limits an owner’s rebuilding choice to a home no greater than the size to serve the existing household occupants. For example, a homeowner with a two-person household that resides in a three bedroom/2 bath may only be qualified to receive a 2 bedroom/1 bath replacement home. For lower-income households who equity resides the in value of their homes, this rule would mean loss of equity to that household. Additionally, many of our senior homeowners who are now “empty nesters” will be the most negatively impacted.

1001 Preston Street, Suite 950  ■  Houston, Texas 77002  ■  (713) 274-1000
7901 El Rio Street  ■  Houston, Texas 77054  ■  (713) 991-6881
On behalf of Harris County residents, and in effort to obtain official guidance, we seek your assistance in holding a hearing on this matter and that HUD officials be invited to testify as to the merits of the rule imposed by the GLO, and whether there is statutory or a regulatory basis for such rules.

We thank your service to the residents of Harris County and appreciate your support.

Regards,

Rodney Ellis
Harris County Commissioner
Wells Fargo Donates Additional $7.9 Million for Small Business Growth

Diverse Community Capital program already supports 16,000 business loans, helped create more than 105,000 jobs across country

San Francisco—Business Wire—Wells Fargo announced another boost to diverse small businesses today with $7.9 million in grants from its Diverse Community Capital program, which offers capital and technical assistance to minority-owned small businesses through Community Development Financial Institutions (CDFIs). To date, the program has generated more than 105,000 jobs across the U.S.

"Small businesses are experiencing a time of rapid growth, but entrepreneurs are still struggling to reach their full potential," said Jen R. Campbell, president of the Wells Fargo Foundation. "By working with CDFIs, we can fund efforts on the ground that remove barriers, expand highly personalized coaching and put more small businesses on a path to succeed, especially in underserved communities. Every community needs small businesses to create jobs and financial stability."

As part of its new strategic focus announced in June, Wells Fargo is focusing on three societal challenges: housing affordability, small business growth and financial health. Wells Fargo’s Diverse Community Capital (DCC) program is a critical component of the small business strategy and supports business owners. who are African-American, Hispanic, American Indian/Alaska Native, Asian, women, veterans, LGBT/G, people with disabilities, and other underrepresented groups.

Launched in 2013, the Wells Fargo Works For Small Businesses: Diverse Community Capital program is a collaboration with Opportunity Finance Network (OFN). According to OFN’s latest report, DCC awardees have already made more than 16,000 loans to diverse small business owners resulting in $765 million in lending across 37 states, Washington, D.C., and Puerto Rico. In addition, grant funding has provided for more than 327,000 hours of development services for over 49,000 diverse entrepreneurs. Wells Fargo is on track to invest more than $175 million in diverse small business growth through 2020.

"The DCC program plays a critically important role in helping to strengthen economic mobility for diverse entrepreneurs around the nation," said Donna Faber, OFN’s Executive Vice President of Knowledge Sharing. "These businesses in turn create employment opportunities in their communities. We’re proud to continue our longstanding partnership with Wells Fargo to ensure capital and capacity building resources flow to the small businesses that need them most."

The newest DCC grantees, funded by the Wells Fargo Foundation, are:

- Accion, serving Imperial, Riverside, San Bernardino and San Diego counties, Calif. ($100,000): to expand access to capital for Hispanic and African-American small business owners across the counties it serves, including more support for its successful Rapid Loan product.
- African Development Center, Minneapolis ($160,000): to expand loans and entrepreneurial training to more African immigrants and refugees in a new location in St. Cloud.
- BBFF, Orlando, Fla. ($100,000): to create a Construction Assistance Incubator Center that provides minority entrepreneurs in the booming construction industry, especially around Jacksonville and Orlando.
- Business Center for New Americans, New York ($500,000): to increase lending to new Americans, expand a pilot line of credit loan product, and provide financial management coaching for minority, women and immigrant entrepreneurs.
• California FarmLink, Aptos, Calif. ($500,000): to increase services for farmers of color through loan capital, one-on-one technical assistance and exploration of new business models over the next three years, including a wealth-building program for farmers and ranchers.

• Costal Enterprises, Brunswick, Maine ($100,000): to provide access to capital and financial counseling for business owners who are women, immigrants, and people of color and to expand successful Portland, Maine-based programming to more rural parts of the state.

• Community Vision Capital & Consulting, San Francisco ($310,000): to support the launch of a new loan fund, in collaboration with six local nonprofits, to bring lending to historically underinvested businesses and more employment opportunities in Alameda and Contra Costa counties.

• CEDC Enterprise Development Group, Arlington, Va. ($450,000): to build momentum with Hispanic and African-American small business owners, particularly in the brick-and-mortar area, through lending and personalized technical assistance.

• FENANTA, Philadelphia ($475,000): to expand its Affinity Group Lending model to four states — Alabama, California, Missouri and Nebraska — benefiting up to 80 new diverse business borrowers over the next two years. Through its model, FENANTA also anticipates helping up to 450 entrepreneurs in Philadelphia over the same time period.

• Latino Economic Development Center, Washington, D.C. ($500,000): to support the creation of approximately 300 businesses and the retention of 1,500 jobs over the next three years across the Greater Washington, D.C., area as well as Baltimore and Puerto Rico.

• Natural Capital Investment Fund, Shephtontown, W.Va. ($100,000): to drive success for diverse entrepreneurs in successful, high-impact industries such as farming, healthcare and daycare, including a focus on cultivating a network of women-owned small businesses.

• Nebraska Enterprise Fund, Oakland, Neb. ($225,000): to grow the success rate of diverse business owners with more coaching around business challenges and performance during the loan process and greater access to management tools.

• Northern Initiatives, Marquette, Mich. ($500,000): to increase the number of diverse borrowers who have access to small business training and to improve Access, an online bilingual business education portal.

• Pacific Community Ventures, Oakland, Calif. ($500,000): to expand lending and coaching for underserved entrepreneurs by offering more help during the underwriting process, strategic guidance and problem-solving around financial challenges.

• Propel Nonprofits, Minneapolis ($500,000): to deploy patient capital with three-to-five-year loans and technical assistance for diverse nonprofits in the Twin Cities metro area, working to stabilize organizations serving the community.

• South Carolina Community Loan, Charleston, S.C. ($100,000): to engage in lending, technical assistance and community relationship-building with historically underserved small business owners as a way to stimulate local economic growth and jobs.

• Working Solutions, San Francisco ($450,000): to infuse new capital into small businesses serving communities of color across San Francisco.

• WBBIC, Milwaukee ($500,000): to establish an entrepreneur accelerator program in Milwaukee, extend lending and small business counseling and help shorten the turnaround time for loan processing.

About Wells Fargo

Founded in 1852 and headquartered in San Francisco, Wells Fargo & Company (NYSE: WFC) provides banking, investment and mortgage products and services, as well as consumer and commercial finance, through 7,500 locations, more than 13,000 ATMs, and the Internet (wellsfargo.com). With approximately 262,000 team members, Wells Fargo serves one in three households in the United States. With its corporate philanthropy, Wells Fargo aims to pave a path to stability and financial success for underserved communities by focusing on housing affordability, small business growth, and financial health, among other local community needs. In 2018, Wells Fargo donated $444 million to nearly 11,000 nonprofits. For 10 consecutive years, Wells Fargo has held the honor of No. 1 in workplace giving by United Way Worldwide. Wells Fargo team members also actively support communities by devoting more than 2 million hours of volunteer time in the last year. News, insights and more information on the company’s overall corporate responsibility are available at Wells Fargo Stories and press.wellsfargo.com/brands.
September 10, 2019

The Honorable Al Green
Chairman, Subcommittee on Oversight & Investigations, Committee on Financial Services
2347 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Green:

Thank you for the opportunity to provide a letter for the record for the field hearing of the Subcommittee on Oversight & Investigations, Committee on Financial Services entitled “Examining Discrimination and Other Barriers to Consumer Credit, Homeownership, and Financial Inclusion in Texas” held in Houston, Texas on September 4, 2019.

Access to capital for minority owned small businesses, whether through large financial institutions like Wells Fargo, community banks, minority depository institutions (MDIs) or Community Development Financial Institutions (CDFIs) is vitally important for the economic health of diverse communities and the overall economic competitiveness of the United States.

Recognizing the particular role that CDFIs can play in providing financing and services to diverse owned small businesses, Wells Fargo launched an ambitious program in 2015 called the Wells Fargo Works for Small Business®: Diverse Community Capital (DCC) program. DCC focused on distributing $75 million in capital over three years (2018-2018) to CDFIs that serve diverse small businesses. In addition to debt and grant capital, awardees also participated in social capital activities offered through Opportunity Finance Network (OFN), a national network of CDFIs. The social capital activities, focused on building the capacity of CDFIs, include in-person networking, mentorship, consulting and peer learning. While the original $75 million commitment was met in 2018, Wells Fargo committed an additional $100 million in grant capital to expand the program through 2020.

Since program launch, DCC has focused on four goals:

- To increase lending to diverse small businesses;
• To build the capacity of CDFIs to lend to and provide development services to diverse small businesses;
• To strengthen the readiness of diverse small businesses to access capital;
• To improve and transform systems for how diverse small businesses access capital and development services.

DCC program awardees, with Wells Fargo’s support, have made tremendous progress toward these goals. According to the Opportunity Finance Network’s 2018 report, the program’s first 68 awardees (2010-2018):

• Originated more than 16,000 loans totaling $784 million to diverse small businesses, including 5,400 loans ($267 million) to Black or African American businesses and 7,000 loans ($215 million) to Hispanic or Latino businesses.
• Delivered 322,000 hours of development services to 49,000 diverse small businesses.
• Helped create 61,000 jobs and retain 42,000 jobs at diverse small businesses.

With the latest round of funding, the DCC program has approved $115 million in grants and capital to 92 CDFIs serving borrowers in rural counties and urban centers in 37 states, the District of Columbia and Puerto Rico. See Attachment A, July 25, 2013 Press Release.

Focusing on Texas, DCC Awardees serving diverse small business borrowers in the state have received $9.5 Million since the program launched. Awardees include: Dreamspring (formerly Accion serving AZ, NM, NV, CO & TX), LiftFund, PeopleFund, and BCL of Texas.


Sincerely,

[Signature]
Connie E. Smith
SVP, Diverse Community Capital Program Manager