

**THE ROLE THAT COMMUNITY DEVELOPMENT FI-
NANCIAL INSTITUTIONS AND MINORITY DEPOSI-
TORY INSTITUTIONS SERVE IN SUPPORTING
COMMUNITIES**

HEARING
BEFORE THE
SUBCOMMITTEE ON
FINANCIAL INSTITUTIONS AND CONSUMER
PROTECTION
OF THE
COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE
ONE HUNDRED SEVENTEENTH CONGRESS
SECOND SESSION
ON
EXAMINING CDFI'S AND THE EFFECT THEY HAVE ON COMMUNITIES,
JOB CREATION, OUR ECONOMY, AND SMALL BUSINESSES

FEBRUARY 9, 2022

Printed for the use of the Committee on Banking, Housing, and Urban Affairs



Available at: <https://www.govinfo.gov/>

U.S. GOVERNMENT PUBLISHING OFFICE

WASHINGTON : 2022

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THE ROLE THAT COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS AND MINORITY DEPOSITORY INSTITUTIONS SERVE IN SUP- PORTING COMMUNITIES

WEDNESDAY, FEBRUARY 9, 2022

U.S. SENATE,
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND
CONSUMER PROTECTION,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Subcommittee met at 2:31 p.m., via Webex and in room 538, Dirksen Senate Office Building, Hon. Raphael G. Warnock, Chair of the Subcommittee, presiding.

OPENING STATEMENT OF CHAIR RAPHAEL WARNOCK

Chair WARNOCK. This hearing will now come to order.

Welcome to the first hearing of the Subcommittee on Financial Institutions and Consumer Protection this year. This hearing is in a hybrid format. Our Members are in person, but we will have witnesses testifying both in person and by video. We are grateful for their presence.

For those joining remotely, just a few reminders. Once you start speaking, there will be a slight delay before you are displayed on the screen. To minimize background noise, please click the mute button until it is your turn to speak or ask questions. I guess I should practice that. You should all have one box on your screens labeled “clock” that will show how much time is remaining.

As we are all here in person, our speaking order will be as is traditional, that is, by seniority of the Members here when the gavel came down and then by seniority of Members arriving later, alternating between Democrats and Republicans.

I am honored to chair this Subcommittee and to work with Ranking Member Tillis to ensure stability in our banks, our credit unions, and other financial institutions that serve families, small businesses, and communities in Georgia and around our country, and to ensure that our communities have equal access to the financial resources that build an economy that works for all Americans.

Now that brings me to the topic of our hearing today, which will examine Community Development Financial Institutions, or CDFIs, and Minority Depository Institutions, or MDIs, and the role that they play in supporting communities, creating jobs, boosting our economy, and helping small businesses to thrive. We will also examine the roles they play to help communities build resiliency

against a crisis, like the pandemic, overcome crisis, and importantly, recover from the crisis so that our communities do not simply survive but thrive. Finally, I hope that our witnesses will discuss ways that Congress can better support the work that they do every day to grow our economy from the bottom up.

The economic turbulence of the COVID-19 pandemic has pushed working families to the brink, often forcing them to choose between their health and their livelihoods. Thanks in part to the aid passed by Congress to combat the pandemic, our Nation is experiencing one of the quickest job market recoveries ever seen. Last month, the Georgia Department of Labor reported that the State's unemployment rate is now 2.6 percent, with 97 percent of jobs lost during the height of the pandemic now recovered. Last week, the jobs report showed that jobs rose by 467,000, defying the expectations of many experts. Critical in facilitating this recovery has been the work of CDFIs and MDIs, and I appreciate that we have two before us here today to talk about the work that they are doing even now in their respective communities.

Let me say that this is also personal for me. This is not theoretical stuff. In addition to serving as a Senator for Georgia, I am also Senior Pastor of the historic Ebenezer Baptist Church, spiritual home of Martin Luther King, Jr., and John Lewis. And the bank that our church uses, Citizens Trust Bank, is in fact one of the many CDFIs and MDIs in Georgia that have been helping families and institutions in our community to thrive. I know this firsthand.

And as a pastor and as a Senator, I see my work is grounded in serving others and my community, and that is what CDFIs and MDIs are doing. They are serving others and the community. Whether it has been acting as our Nation's fiscal first responders immediately there to assist families and small businesses facing the financial unknown during the first weeks of the pandemic or facilitating the flow of Federal aid to communities, CDFIs and MDIs provided economic stability and certainty to millions of Americans, allowing them to focus on the health and the safety of themselves and their children.

In Georgia, the Atlanta-based CDFI, Access to Capital for Entrepreneurs, or ACE, immediately sprung to action early in the pandemic to help small businesses. In the first months of the pandemic, they worked with their clients to offer emergency funds, including Paycheck Protection Program loans, and they worked with local development authorities and investment partners to give flexibility for small business borrowers as the economy recovered. These actions by just one CDFI saved hundreds of jobs in my home State of Georgia.

The Federal Reserve Bank of San Francisco has rightly referred to CDFIs as economy shock absorbers for communities in the worst of the downturn. These institutions make sustainable investments within our communities. They are members of our community. They know the folks in the community. They understand these communities. And, they have the correct incentives to help communities prepare, work through, and recover from the crisis.

CDFIs are also helping communities protect themselves against climate disasters. In Georgia, CDFIs have collaborated to begin of-

fering green loans, which is capital provided to small businesses in the State to help them have a business that is more ecofriendly, such as funding energy efficiency improvements. These investments help to create green jobs, and they push Georgia and our Nation toward a sustainable future.

Even with the work done by CDFIs and MDIs to help communities, the data show that we still have more work to do. In the crisis we are currently living through, there is no doubt that the jobs recovery, as strong as it is, is uneven. Men have entirely recovered their job losses since the pandemic began while there are one million fewer women in the labor force than in February of 2020. The recovery has been uneven. And unemployment among Black Americans remains elevated. And if history is any indicator, rural communities, like those in my home State of Georgia, will lose resources and these same communities will struggle to bounce back as they see resources leave their communities.

The number of MDIs fell by 31 percent. The number of Minority Depository Institutions fell by 31 percent from 2008 to 2018 even as the need for these institutions remains higher than ever.

And there are even those who wish to defund the CDFI Fund program permanently. I think that is wrong-headed. And I believe Congress, and this Subcommittee in particular, has an important role to play to ensure that the financial institutions that support underserved communities, small businesses, and working families traditionally overlooked by larger banks, have the resources, the tools, and the support to continue their important work, that is, to ensure that ours is an economy and a capitalism that gives communities, all of our communities, a chance to thrive.

And so this hearing is about helping people. It is about helping communities and helping small businesses. Hardworking American families are on the front line when a crisis strikes a community, whether it is a natural disaster made worse by global climate change, economic recession caused by greedy corporate business practices, or a public health crisis such as the ongoing COVID-19 pandemic. As families, small businesses, and communities recover, we must ensure they have the resources they need not only to survive but to thrive.

Thank you and I will now turn to Ranking Member Tillis for his opening statement.

OPENING STATEMENT OF SENATOR THOM TILLIS

Senator TILLIS. Thank you, Chairman Warnock, and thank you for holding this hearing. It is our second in this Congress, first this year. I appreciate it. I also want to thank the witnesses for being here to testify.

I have long been an advocate for a resilient and diverse banking ecosystem, one that blends a healthy mix of globally systemic financial institutions, super-regionals, and regionals, all the way down to local community banks. Banks and credit unions of all different sizes bring varied missions and capabilities to their customers, allowing individuals to select the banking experience best tailored to them and their communities. I also would agree that CDFIs and MDIs fit into that important ecosystem.

And we only have to look at the experience in our response to the pandemic, when the financial institutions of various sizes mobilized to actually get desperately needed resources out to businesses through the Paycheck Protection Program. In total, the SBA approved over 1.8 million Paycheck Protection loans, totaling 799 billion in dollars. CDFIs, for their part, approved over 350,000 PPP loans, totaling \$8.4 billion. I want to thank you all for the mobilization.

And, Chairman Warnock, I was struck by the fact that when we were mobilizing, having worked in the banking industry in a regulatory environment for a part of my career, that they were willing to mobilize when the rules were literally being written, when they were just putting facts out with the Treasury. The fact that they were willing to do that, I think, is extraordinary. And I want to—in this setting, want to thank the CDFIs and the MDIs who also mobilized and answered the call.

But that said, I raised concerns in the previous Subcommittee hearing over the lack of transparency, data, and transparency, that happened to be related to unemployment benefits. But I think the flooding of the zone of resources and various studies point to the fact that we can do a better job with transparency, accountability, and measuring efficacy in these programs so that people like me, who believe in them, will continue to support and sustain them. Policymakers simply do not receive enough information to adequately judge how effective the lending operations of the CDFIs are.

A report from the Carsey Institute up in New Hampshire, on behalf of the Department of Treasury said this: “In developing this report, the research team encountered significant data limitations at every turn . . . ” and identified inadequate data and non-standardized auditing practices as significant barriers to CDFIs achieving better capitalization.

The authors go on to say, “. . . it is currently simply impossible to make the most routine analyses that are normally conducted with other classes of loan assets. It is not possible, for example, to create a breakdown of default rates or prepayment speeds for a given class of CDFI loans, or even to provide a breakdown of borrower or credit scores.”

“What is ironic about this”—I am going on with the report “is that CDFI managers feel they are swamped with reporting requirements, which they routinely fulfill. It is difficult to reconcile how CDFIs can be doing so much reporting . . . ” Yet, we have so little to show for it in terms of meaningful information for people like me, who want to continue and build on these programs.

And I mention that not to vilify CDFIs but to point out that I believe there are systemic deficiencies in the CDFI oversight and transparency that can prevent them from most effectively serving the communities that they reside in. Given the tremendous level of funding bestowed on CDFIs and MDIs over the course of COVID-19, I believe these deficiencies are especially important to examine and rectify.

Just last year, the CDFI Fund received the same level of funding that would have previously been appropriated over a decade, a more than 10-fold increase. Additionally, Congress established the

Emergency Capital Investment Program (ECIP), which provided an additional \$9 billion fund to help stabilize CDFIs and MDIs.

My colleagues on the other side of the aisle also reinstated the Obama era State Small Business Credit Initiative (SSBCI) in the, what was arguably partisan, reconciliation package that they passed last year. This \$10 billion program, which will also direct money toward CDFIs, was rightly allowed to expire due to chronic inadequacies that resulted in only 4 States whose SSBCI programs were in compliance, according to the Inspector General's report.

And North Carolinians are familiar with the lack of oversight over taxpayer dollars that the SSBCI doled out. The founding President of the North Carolina Rural Center resigned and was withheld severance following a State audit which detailed financial malpractice at the organization.

So without greater transparency and data requirements, I am concerned we could see the same situation play out again. With a price tag in the tens of billions between SSBCI, ECIP, and the 12-fold increase to the CDFI Fund, it is crucial that policymakers are equipped with concrete data that provides an accurate view of the impact of CDFIs and MDIs. While a press release touting how much money went out the door is good, comprehensive data, greater transparency, a better understanding of efficacy is also very, very important.

So, Mr. Chairman, I had a brief conversation with a member on the floor and briefly with a witness before us. I want to make it very clear that I think that CDFIs and MDIs are a critical part of a healthy ecosystem for financial—of all financial institutions. We need to provide access to capital to unserved and underserved communities. But we also owe it to those same institutions to make sure that we are getting right, that they are accountable, and we understand what programs are working and what programs are not.

I look forward to the witnesses' testimony.

Chair WARNOCK. Thank you so very much, Ranking Member Tillis, for your opening statement.

Now let us turn to our witnesses. Testifying today will be Mr. Robert James II. He is the President and the CEO of the Carver Financial Corporation. It is a CDFI and an MDI from my home city of Savannah, Georgia. In fact, Carver State Bank is right down the street—literally, right up the street from where I grew up. He is also the Chairman of the National Bankers Association.

Also testifying is Ms. Jeanne Kucey, President and CEO of Jet-Stream Federal Credit Union, Miami Lakes, Florida, on behalf of the National Association of federally Insured Credit Unions. Jet-Stream was one of the first CDFI credit unions in South Florida, and we are grateful to have Ms. Kucey here today.

Finally, our last witness is Mr. Griffith, a research fellow at the Heritage Foundation, where he focuses on financial regulations.

We appreciate your testimony, and we look forward to this important discussion.

Mr. James from Savannah, Georgia, God's Country, I will now turn things over to you.

**STATEMENT OF ROBERT JAMES II, PRESIDENT AND CEO,
CARVER FINANCIAL CORPORATION, AND CHAIRMAN, NA-
TIONAL BANKERS ASSOCIATION, SAVANNAH, GEORGIA**

Mr. JAMES. Thank you, Chairman Warnock, Ranking Member Tillis, and Members of the Subcommittee. Good afternoon. And I appreciate this opportunity to testify on how MDIs and CDFIs support communities.

Again, my name is Robert James II, and I am President of Carver Financial Corporation, which is the parent of Carver State Bank in Savannah, Georgia, and I am Chairman of the National Bankers Association.

The NBA is the leading trade association for the country's MDIs. A critical part of our mission is to advocate for all MDIs on legislative and regulatory matters affecting our banks and the communities we serve. Like Carver, many of our members are also CDFIs with a primary mission to serve those who are underserved by traditional banks. Our banks are on the front lines, trying to eliminate the racial wealth gap that makes our communities the most vulnerable during good times and bad.

Decades of income disparity, unequal access to health care, and residential segregation have made communities of color and other low-income communities less resilient. The COVID-19 pandemic and climate crisis bring this inequity to light. Eliminating the racial wealth gap is not only the best way to combat environmental and health injustice, and ensure resilience in communities of color, but recent research shows that eliminating this gap would add trillions of dollars to America's GDP. We believe our banks are best positioned to help our communities become more resilient in the face of climate change, health emergencies, and systemic issues that have placed them at an economic disadvantage.

The Senate Banking Committee has taken concrete steps to ensure that MDIs and communities we serve are not forgotten during times of crisis. For example, the bipartisan ECIP program and increased funding for CDFIs can help many MDIs and CDFIs scale up and provide more access to capital in underserved communities. The bipartisan Infrastructure Bill provides billions of targeted dollars that can be instrumental in addressing systemic environmental injustice while also providing new economic opportunities.

The NBA looks forward to working with Congress on additional legislation to ensure that our communities hardest hit by the pandemic and system inequity experience lasting, material changes. I would like to highlight today the need for legislation that will allow MDIs to continue to augment our capital bases, push to include banks, our banks and communities, in opportunities that will flow from the Infrastructure Bill and address a regulatory process that can hamper our banks' ability to bring the underserved into the financial mainstream.

Traditionally, MDIs and CDFIs have served as anchor institutions in minority and low-income communities. Unfortunately, our smaller size, particularly among African-American MDIs, has not allowed us to respond as quickly or with as much scale as these situations demand. MDIs make up only 3 percent of all American banks, and Black-owned MDIs, only 0.4 percent. When looking at total bank assets, the disparity is even more stark. As of the second

quarter of 2021, Black banks held about \$6 billion in total combined assets as compared with over \$22 trillion in total assets in the U.S. banking system. Put another way, Black-owned banks only control 27,000ths of 1 percent of total bank assets in the United States. We need more capital to scale.

Tier 1 capital, or the equity invested in a bank, is the most critical component of our resilience, and it is what allows us to grow and scale. MDIs have historically lacked access to capital markets, limiting our scale and ability to invest and make our communities more resilient. The ECIP program is a historic step in the right direction, but unfortunately, many of our banks were not able to access it due to the uneven application of regulations that have failed to consider the unique business models mission-driven banks must employ to provide basic banking services in markets that are otherwise ignored by mainstream banks. We need regulators to be intentional and modernize the examination process for mission driven banks that do not do business in wealthy areas.

The bipartisan infrastructure law presents a generational opportunity to not only repair our Nation's roads and bridges but also to be inclusive. NBA members are eager to participate in the financing of major projects in our communities and to connect minority businesses to these opportunities, especially in new areas like EV charging. Intentionally including our banks and our customers will strengthen small businesses, create good jobs, and make our communities more resilient.

The COVID-19 pandemic spurred us to start addressing the root causes of racial inequity in health outcomes, many of which revolve around economic disparity. It is time now to expand the conversation to address the economic roots of environmental injustice and ensure that all Americans are protected from the worst effects of climate change. In this regard, the NBA looks forward to working closely with the Committee and Subcommittee on workable solutions that ensure that underresourced communities will not only survive but ultimately thrive.

Thank you for the opportunity to testify and for your efforts to ensure equity for all communities across the country. I will be pleased to answer any questions.

Chair WARNOCK. Thank you so very much, Mr. James.

Next, we will hear from Ms. Kucey, who will also testify virtually.

STATEMENT OF JEANNE KUCEY, PRESIDENT AND CEO, JET-STREAM FEDERAL CREDIT UNION, ON BEHALF OF THE NATIONAL ASSOCIATION OF FEDERALLY INSURED CREDIT UNIONS, MIAMI LAKES, FLORIDA

Ms. KUCEY. Well, good afternoon, Chairman Warnock, Ranking Member Tillis, and Members of the Subcommittee. My name is Jeanne Kucey, and I am testifying today on behalf of the NAFCU. I am the CEO of JetStream Federal Credit Union, a low-income CDFI and MDI serving Miami Dade County, Florida, and Puerto Rico.

Credit unions are proud of their record of diversity and helping their communities. At the end of 2020, there were 520 MDI credit

unions, and the number of CDFI credit unions has been growing, with 416 at the end of 2021.

As we continue the pandemic recovery, NAFCU urges Congress to consider increased funding levels for the CDFI program. It is this program that gives credit unions like JetStream an important resource to help create initiatives to serve our communities.

At JetStream, we are heavily vested in the prosperity of the communities we serve, having supported them through hurricanes, Government shutdowns, and during the COVID-19 pandemic. Our membership is diverse and reflective of the communities that JetStream serves; 71 percent of our members are classified as low-income or below, 67.5 percent are Hispanic, and 18.8 are African American.

Since 2011, JetStream has received \$5.8 million in CDFI grants to sponsor a variety of programs, including small business lending and a resettlement loan program for low-income members. The grants also supported the Whole Again loan program, an initiative that provided \$17 million in consumer loans to replace goods and vehicles destroyed by Hurricanes Irma and Maria. The two hurricanes were a life-defining moment for many of our members, and we knew that we had to act through no cost, zero percent APR short-term loans, deferment of existing loan payments, elimination of transactional fees, and financial coaching for our members who were dealing with active insurance cases and attempting to rebuild their homes.

In 2020, JetStream launched a multipronged COVID-19 emergency relief program that included emergency loans, lines of credit, a 6-month payment deferral, and fee waivers. Consumer loan deferments totaled \$10.5, and our fee income was reduced by 32 percent. Additionally, by strictly following CDC guidelines, JetStream maintained normal operating hours throughout the crisis.

Our low-income members are more likely to live in urban heat islands with fewer trees and more pavement as well as residing in housing with older building materials and appliances. To address these climate-related challenges of our members, we are fortunate to have recently been approved for a CDFI grant for a green loan program. This will address these challenges with innovative products and underwriting created to improve efficiencies for low-income homeowners and also help those who need major repairs to their homes, resulting in improved housing stock and increased household income. Thanks to the CDFI Fund, we are looking forward to unveiling this program to our community later in 2022.

My written testimony outlines a series of steps that can help MDI and CDFI credit unions continue to serve their communities and members. Some of these include increased funding for the CDFI Fund and the NCUA's Community Development Revolving Loan Fund, creating a CDFI Crisis Fund to quickly make capital available to CDFIs to address a crisis, improving and streamlining the process for certification and recertification as a CDFI, allowing credit unions to serve underserved areas and have longer loan maturities, requiring the FHFA and FHA to establish specialized mortgage loan programs for MDIs and CDFIs, and improving the process for de novo credit unions.

In conclusion, MDIs and CDFIs play a vital role for millions of Americans. We urge Congress to support funding for these programs and take steps to make it easier for credit unions to serve their members and communities.

Thank you again, Chairman Warnock, Ranking Member Tillis, and the Members of the Subcommittee, for the invitation to testify before you today. I welcome any questions you might have.

Chair WARNOCK. Thank you, Ms. Kucey.

Next, we will hear from Mr. Griffith who is in person.

STATEMENT OF JOEL GRIFFITH, RESEARCH FELLOW, FINANCIAL REGULATIONS, HERITAGE FOUNDATION, WASHINGTON, DC

Mr. GRIFFITH. Chair Warnock, Member Tillis, and Members of the Senate Subcommittee, thank you for the opportunity to testify today. My name is Joel Griffith. I am a research fellow at the Heritage Foundation. The views I express today are my own and should not be construed as representing any official position of Heritage.

Taxpayer dollars diverted to CDFIs and the CDFI Fund all too often hinders competition and misallocates limited economic resources, benefiting select interests. In addition, a lack of transparency has yielded lax accountability and has resulted in lost confidence in the fairness of our financial system.

The 2021 Emergency Capital Investment Program highlights the elevated risk that dominates CDFI lending. Congress, in March 2021, authorized the Treasury Department to invest up to \$9 billion in CDFIs to enable them to meet capital requirements and to continue lending even as the threat of defaults on loans previously made by CDFIs grew. In just an 8-month span, one in three CDFI depositories requested Treasury investment through this emergency program. This suggests that distressed loans threaten the operational capacity of more than one-third of the CDFI depositories. The extent of the demand for taxpayer assistance through this emergency program over the past year underscores the dangers stemming from looser underwriting standards, Government subsidization of the CDFI business model, and the lack of transparency.

Another troubling component of the new Government largess for CDFIs is the State Small Business Credit Initiative. The American Rescue Plan provided \$10 billion to restart this initiative that funds State programs that provide loan guarantees to politically favored entities. Numerous problems have plagued this program in the past. For instance, the Treasury's Office of Inspector General identified noncompliant expenditures related to California's loans which constitute a "reckless misuse of funds." The Inspector General also identified reckless misuse of funds and conflicts of interest in the New York SSBCI program related to one of the venture capital firms participating. These States were not alone. The Inspector General found only four States were in full compliance with this program that funds CDFIs.

Although marketed as a pandemic response, SSBCI funding is now available for years into the future, and this basically allows CDFI funding to operate as a slush fund for politicians across this

country. The fact is Government-provided capital is sponsoring political ambitions and padding the pockets of special interests, but it is not filling an unmet funding need of small businesses.

The vast majority of small businesses are saying they are generally not looking for more credit. Only 3 percent of respondents in a January 2022 NFIB survey reported that their borrowing needs were not satisfied. Only 1 percent of small businesses reported financing as their top business problem late last year. In fact, only 2 percent of businesses are reporting that their most recent loan is any more difficult to achieve than their last one.

Well, favoritism and inefficient allocation of capital is even more of a concern now with CDFIs with the advent of Opportunity Zones because CDFIs are now providing below market rate debt to finance investment projects in favored neighborhoods. Unfortunately, research shows that current residents of targeted areas do not see an increase in wages following this development aid, but they do experience rising rental costs. Higher living costs without higher wages result in a lower standard of living in the communities that policymakers are trying to help, and these place-based subsidies have a history of unintended consequences and corruption.

In conclusion, State and local governments share a responsibility to eliminate the artificial barriers that prevent economic growth and that limit affordable housing. This includes minimum wages, occupational licensing, unreasonable zoning restrictions, and of course, the failed public education system, the monopoly that fails millions of students who are subsequently unable to compete in the labor market. In contrast to these specific policies just outlined, more Government investment in CDFIs will fail to yield consistent increases in employment, wages, or advances to general economic opportunities. Placed-based programs cannot resolve the complicated institutional barriers to economic opportunity.

Government-subsidized, placed-based lending and investment fails to address the underlying causes of concentrated poverty. These causes are educational choice, the lack thereof, restrictions on worker freedom, and continued onerous local regulation and mismanagement.

Thank you to the Subcommittee for your time and the invitation.

Chair WARNOCK. Thank you all so much for your testimony. We turn now to questions.

We know that not all communities have equal access to small business capital; they simply do not. The institutions we are discussing today are specifically designed to help these rural and underserved parts of our communities.

To help protect jobs during COVID-19, Congress passed the Paycheck Protection Program, or PPP, a new forgivable loan program for small businesses. However, when launched, small businesses in underserved communities nationwide discovered that they were shut out of the process. They were at the back of the line. The Shake Shacks of the world were in front of the line. And these entities were shut out of the process by some of the Nation's biggest banks. It was community lenders that stepped up to help.

And when the PPP program ended, institutions like CDFIs and MDIs were the ones most likely to reach small businesses in underserved communities, with 77.9 percent of their loans for under

\$150,000. Smaller size loans like these are critical for mom-and-pop businesses, and so-called microbusiness loans are especially an important tool that CDFIs and MDIs can use to help their communities.

Ms. Kucey, how has JetStream used these microloans to help your members meet the needs of your community?

Ms. KUCEY. Well, it was—we found that access to microbusiness loans was the largest unfunded financial need in our local community. Whenever I attended chamber of commerce meetings or just even feedback from our employees and our membership, members were looking for these loans, and they were not able to find them through the banks in the local communities.

So we did receive a CDFI grant, and it helped us fund a very robust business lending program. We offered microbusiness loans from 10 to 50,000. I can tell you 100 percent of those loans went to minority borrowers and almost 50 percent went to female borrowers. The loans funded a variety of businesses in our local communities, including a professional such as a CPA, real estate agents. We helped launch or expand businesses that were involved in food service, janitorial, mentoring.

We have a lot of interesting stories. We had one lady come to us. She had designed and manufactured dancewear, and she wanted a loan to market this dancewear nationwide. We gave her that loan, and almost immediately through the marketing she obtained a contract for the Miami Heat cheerleaders. And that was such a visible contract that her business expanded exponentially from there. And this was someone that we gave a \$25,000 loan to, and she is now a very successful entrepreneur.

And I could go on with these stories all day, but I know that there is a clock. So if you have any other questions, I would be happy to answer them.

Chair WARNOCK. Thank you so much. That is a wonderful story. But can you tell me what are some other hurdles that still exist between these small and needy borrowers and microlending services that Congress might still address?

Ms. KUCEY. Well, the availability is an issue. There is definitely not a wide availability of these loans, particularly to minority and low-income business borrowers. And the rates and terms are often not favorable. So you know, I would say those are the largest obstacles.

Chair WARNOCK. Mr. James, big banks have historically underserved rural areas, but small businesses in these communities face the same capital needs that any small business faces. Would you speak to your experience with CDFIs in helping rural communities and small businesses in Georgia? What difference do they make?

Mr. JAMES. Sure. Thank you very much, Chairman Warnock. Our institutions really focus on all the areas that are underserved, and as you know, in Georgia, that means many swaths of our community that are rural in nature. And so we have taken—at Carver, we have taken a special effort to reach out to many of those rural communities, including those with persistent poverty. So for example, we joined up with the city of Statesboro, Georgia, to make a special loan program available to Main Street businesses in Statesboro that were impacted by the pandemic and were not able

to get enough funding from the PPP loan program. We have made additional efforts in other rural communities around the State. And so those are just a few examples of how we reach out to rural communities across a State and across the Nation.

Chair WARNOCK. Thank you so very much for clarifying the role, unique role, that these institutions play.

Ranking Member Tillis.

Senator TILLIS. Thank you, Mr. Chairman, and again thanks to all the witnesses. I told the Chairman I had them call the vote. I was going to step out, but I wanted to hear your opening testimony. And I have a few questions for you, and then I will move to the next vote that is pending now.

But, Mr. Griffith, I just wanted to start—when you were talking about that survey of businesses and their needs being satisfied. One of the things that I believe that CDFIs and MDIs do is get to people that may never get to that survey, and I have to use a personal example. Back probably in 1974, I was pretty good at carpentry and drywall work because my father made a living for six kids by doing construction repairs for insurance jobs. So, a kitchen fire or something.

He did not have the resources to fund even the materials. So what he would do is he had a relationship with a local bank that—at that time, when banks were able to do more on relationship banking versus some of the regulatory hurdles that have made that very difficult for them to do today, we would get the money to go to the lumber yard to get the materials, finish the job, and pay it back. Those are businesses of one or two, or in some cases, with some of the MDIs and CDFIs, five- or six-person businesses. It may not be caught up into the entire need of the community.

So I do agree that there are a lot of banking needs that probably can be fulfilled through some of the other members of the ecosystem, but I just intuitively believe that there are fathers and mothers out there like mine that are searching for capital and may have limited options, particularly based on their revenue, their credit history. I am sure at that time the Tillis Family credit history was not that good. So that is more of a statement for you, and if I have time I will come back with a question.

But, Mr. James and Ms. Kucey, first off, have either of you read the Carsey report?

Mr. JAMES. I have not, Senator.

Ms. KUCEY. I have not either.

Senator TILLIS. OK. Well, we will make sure our staff gets you a copy. So I am not going to be unfair and ask you to talk about any of the specific findings, but I just intuitively believe that you all probably, given the nature of the relationships you build—I actually worked pretty closely with an MDI down in North Carolina when I was Speaker of the House, and I was actually pretty impressed with their portfolio projects. They were not all successful, but they were more successful than not, and that is the nature of lending.

But would you agree that it would be better if we were equipped with information on efficacy, accountability, some of the things that Mr. Griffith mentioned, so that in future committees we are equipped with data that really instruct us on how to move forward

with more of a fact basis for that? Now I know that when I say that you are probably rolling your eyes and thinking, oh, gosh, that means more reporting and more data.

Do you also agree that some of the current reporting requirements that you have today could be made leaner so that we can grab this information that would be helpful to us to administer the programs over time?

And, Ms. Kucey, we will start with you, and then we will go to Mr. James.

Ms. KUCEY. You know, credit unions are highly regulated. So a lot of that information is available through the requirements that are reported to the NCUA.

Senator TILLIS. That is actually—Ms. Kucey, I am sorry to cut you off. I just want to be sensitive to time; I know you have been. But that is true. I am very familiar with credit unions.

But, Mr. James, maybe you can chime in and give me your perspective.

Mr. JAMES. Sure. Thank you very much, Ranking Member Tillis. Yes, I would agree that we can streamline and make more efficient all of our reporting requirements as CDFIs and MDIs. Our institutions are similar to Ms. Kucey's, highly regulated. We are federally insured banks, and so we are very, very highly regulated.

But I also think that the infusion of new capital into our sector really does provide us with an unprecedented opportunity not just to make new loans but also to develop better infrastructure for capturing and reporting on impact data. So at the NBA, for example, we have been very intentional over the past year, including creating a new nonprofit arm that has through one of its main pillars been gathering and reporting impact data from the Minority Depository Institutions sector to make sure that we are tracking our impact and reporting it out in a much more useful way. And so we look forward to building out that infrastructure with new resources and being able to report much more data back to all our stakeholders, including Members of Congress.

Senator TILLIS. Yeah. Well, thank you for that. And I would just close by saying that I think the Chairman, and most likely his able staff, picked two good witnesses to come before the Committee, but we are talking about hundreds of CDFIs and MDIs.

In the banking industry, where I spent most of my career, looking for some of this baseline data is relative easy to gather. So I am trying to get at why for the Carsey study and for other ones it seems to be more difficult. It seems like there is something more that we can do there that ultimately benefits you and then it either proves or disproves some of the concerns that Mr. Griffith has mentioned in his opening testimony.

Mr. Chairman, I am going to go vote. Thank you for holding this hearing.

And I thank the witnesses. And I will make sure that my staff gets you a copy of the report, and I would be interested if you could either submit for the record or informally your feedback on it, positive or negative. That would be very helpful as we move forward.

Thank you, Mr. Chairman.

Chair WARNOCK. Thank you very much, Ranking Member Tillis, for staying and missing the vote to hear their testimony, to engage in this important conversation.

We are waiting on some other members to come, probably, I am sure, from the vote. We have gone into the second vote for the afternoon. But as we prepare for them, I am going to change the topic just a little bit.

Last year, over 2 million Georgian children received \$300 per month in the expanded Child Tax Credit. This is the largest tax cut for working and middle class families in American history. Eradicating childhood poverty is an issue that touches me deeply, and championing this tax cut has been one of my proudest moments in the Senate. We really ought to extend it.

The expanded Child Tax Credit not only helped give working families in Georgia and across the Nation financial stability and peace of mind, but it also boosted the economy for all of us. Unfortunately, last month was the first time since the summer that these monthly checks did not arrive for families in need, the same communities served by these MDIs and CDFIs.

Mr. James, community institutions such as your own, Carver State Bank, literally right down the street from where I grew up, are acutely aware of the economic well-being of the communities they serve. What effects did you notice on your customers and your bank customers while the expanded CDC payments were being distributed?

Mr. JAMES. Chairman Warnock, thank you for that question. And you are very familiar, as you stated, with exactly where our bank is located and the community that we serve. We are located in the lowest income census tract in Savannah and—which is where our headquarters is, and that is because there is a high concentration of public housing in that census tract. And so we have a number of customers who maintain accounts with very, very small balances.

One of the things that we noticed during the payments that were coming in is that a lot of those customers had a little bit more cushion in their accounts. We did not have to spend as much time helping people monitor and make sure that they did not have overdrafts, for example. We saw that there was fewer, you know, instances where people did not have the ability to make certain basic payments. And so we applauded the influx of capital to many of those customers who are, you know, at the lowest end of the spectrum in the local Savannah community, and we think that those additional funds were certainly very beneficial to them as they sought to make ends meet for all their everyday needs.

Chair WARNOCK. Thank you so much. And I will continue to fight to make this expanded Child Tax Credit permanent.

Looks like we are still waiting on other members.

Last year, to provide pandemic relief, Congress provided \$12 billion in capital investments and grants to CDFIs and MDIs to support their efforts in low-income and minority communities. These Federal capital investments will help fund loans for communities who face barriers when accessing capital and will be used to leverage private funding to amplify the transformation effects the funds will have on communities.

Mr. James, again, how important are these capital investments and grant programs to ensure underserved communities continue to get support they typically receive from CDFIs and MDIs?

Mr. JAMES. Mr. Chairman, these capital programs have a historic—we have a historic opportunity with these capital programs to make an incredible difference that is long-lasting and in these communities that are so underserved and have been chronically underserved.

As you mentioned, there were \$12 billion that were allocated. Only \$1.2 billion of those funds have actually been distributed so far. The remaining \$9 billion in the ECIP program has been earmarked but not distributed yet, and the remaining dollars are in the CDFI Fund awaiting their development of a new program for institutions that focus on minority lending.

I just want to emphasize that our institutions are focused on expanding not only our scale of lending but also building and improving on our infrastructure so that we can be more efficient and get these needed loans and services out to communities of need in a much more efficient way. And so at Carver, for example, we are focusing on building our technology capabilities and being able to reach out not just in the Savannah community but across the State of Georgia. By having better technology, we will be able to reach into those rural communities with much more efficiency and be able to provide services such as the kind of small business lending, home ownership opportunities, community development lending, and other kinds of services and products that are so needed.

Chair WARNOCK. Thank you so very much, Mr. James.

Senator Warren has arrived.

Senator WARREN. I have. Thank you, Mr. Chairman. And let me start by saying, thank you very much, Mr. Chairman, for holding this hearing. Community Development Financial Institutions and Minority Depository Institutions provide a range of critical supports to underserved communities. They do everything from ensuring that families have access to basic financial services to fostering small business creation and being on the front lines of emergency relief when disaster strikes.

So I want to talk about, though, another area where CDFIs and MDIs play a key role, and that is in promoting the supply of safe and affordable housing in communities that need it most, that is, in low- and moderate-income neighborhoods, in communities of color, and in tribal lands.

Our country is facing a historic housing crisis, with the impact falling hardest on low-income families and communities of color. I have one stat on this that just knocks me over. About 60 percent of very low-income renter households and nearly 30 percent of Black renter households are putting more than half their income toward rent.

So, Mr. James, if I could, I would like to start with you. You have decades of experience in community development, including promoting affordable housing in Savannah. So let me ask you just a hypothetical here. If a developer wants to fund new construction or the rehabilitation of existing housing units in a low-income minority or Native community, is it easy for that developer to get tradi-

tional financing to fund an investment in affordable housing? What do you say, Mr. James?

Mr. JAMES. Thank you for the question, Senator Warren. Unfortunately, the answer is no, it is not easy. Even in smaller urban markets like Savannah or in rural markets surrounding us in southeastern Georgia, it is extremely difficult to make traditional loans to finance affordable housing development without some sort of subsidy.

In urban markets, with skyrocketing land costs and compliance with development regulations and standards, and just the overall high demand for new housing, makes it very difficult for developers to create affordable product. In rural markets, the higher costs of construction are having a similar effect.

And we are not just talking about housing for low-income people. We are talking about teachers, firefighters, police, and even those with middle incomes that are increasingly unable to afford rents but much less home ownership. So we do need to see more programs and products that will allow us to be able to effectively make loans for those kinds of developments.

Senator WARREN [presiding]. So I appreciate that. Thank you very much for your expert opinion on that, Mr. James.

So here we have families who need housing, and you have got developers who may want to provide that housing, but it is hard for them to be able to reach traditional funding sources. We all know that one of the tools that Congress has to support CDFIs in expanding the supply of housing in financially underserved communities is the Capital Magnet Fund, which provides grants to CDFIs and nonprofit organizations in order to spur investment in affordable housing. The idea is to bridge the gap between what traditional financing would provide and what it is that these communities need.

My American Housing and Economic Mobility Act would invest \$25 billion in the Capital Magnet Fund over 10 years, an investment, just to put that in some perspective, that is about 30 times larger than the total amount of awards the Fund has made up to now. In other words, a whole lot more money. According to an independent analysis, this investment, which would be leveraged 10 to 1 with private capital, would fund the construction of about 770,000 new affordable housing units, so a real way to get something done.

Mr. James, can I ask, in your view, what would an investment of this size in the Capital Magnet Fund mean for housing markets and for families in underserved communities and communities of color all around our country?

Mr. JAMES. Thank you again for that question, Senator Warren. The legislation that you are proposing would help us achieve a scale of investment that matches the scale of the problem. This legislation would provide CDFIs with critical resources that would allow us to increase the velocity and volume of financing for affordable housing. In most communities around the country, housing demand is, again, far outstripping the supply, and we just do not have enough resources. And so we can be a part of that solution if we have more resources to support affordable housing, so we would definitely support legislation of this type.

Senator WARREN. Well, that is a good partnership. Let us see what we can do on this, Mr. James.

You know, for CDFIs in Massachusetts, like One United Bank and Worcester Community Housing Resources, increased access to funding that support the construction and rehabilitation of high-quality, affordable housing could help bring down rents and open the door to home ownership for thousands families. We need to use every tool we have to address the affordable housing crisis that is worsening by the day. By leveraging close relationships that they have on the ground to ensure that communities are getting the resources they need, CDFIs and MDIs are able to bring capital to people and to places where traditional financial institutions either cannot go or will not go. Ramping up investments in these institutions and the Capital Magnet Fund to expand the supply of safe, affordable housing in communities that are feeling the crunch most acutely is a tool we just cannot afford to ignore.

So, Mr. James, I appreciate your offer of partnership. I sure hope we can get this done.

And with that, I want to call on Senator Menendez. Our Chairman has had to go vote. So, Senator Menendez, it is up to me to recognize you for your questions.

Senator MENENDEZ. Thank you, Senator Warren. Good afternoon, everyone. Throughout the pandemic, we saw that minority- and women-owned small businesses were hit particularly hard. And at the same time, we saw that the vast majority of funding under the Paycheck Protection Program went not to these businesses that were most affected but to predominantly White-owned businesses with preexisting relationships with banks.

So I know that you all worked pretty hard at trying to meet that challenge. But what lessons did you learn from the pandemic that can be brought forward to mitigate disproportionate harm to minority- and women-owned businesses in the future? And any one of you.

Ms. KUCEY. I definitely think that providing ongoing funding to these businesses. And I earlier talked about our microbusiness loan program, where we offered 10 to 50,000 dollar loans in our community to minority and low-income business owners. And through the various catastrophes, Hurricanes Irma and Maria, the COVID pandemic, we have been working very closely with those businesses, and we have been offering payment deferrals, loan restructures, additional loans, and also counseling and advice. So I think it is being a close partner in good times and bad times.

Senator MENENDEZ. Mr. James, any insights?

Mr. JAMES. Senator Menendez, thank you. It is an excellent question. We learned quite a few lessons in my bank, Carver State Bank in Savannah, as well as across the National Bankers Association. One of the lessons that we learned is that our institutions really needed to scale up. We need more capital so that we can invest in technology and people so that we can be ready to meet a crisis when it happens but also to be ready to deploy more capital in these communities, to make them more resilient so that they can withstand the crisis before it comes.

So for example, our institution will be using ECIP dollars to partner with a fintech company to make consumer loan products

that are safe, effective, and low-cost, available to communities that are subject to predation from title pawn lenders and others in the State of Georgia that take advantage of communities. We also want to be able to automate the small business lending process and make it much more efficient so that we can make more small business dollars available in communities across the State, not just in the Savannah market.

The other lesson that I learned from it was just personal, that many of the minority businesses that we were able to help—you know, our bank made probably 90 percent of our loans to minority-owned businesses, but some of them came from outside of our market, well outside, people who were in California or in New York, who found us online and were able to get a PPP loan even when they had a bank account at another bank but their large bank was not prioritizing their loan application.

And so those are the kinds of lessons that we learned, that we need more capital so that we can scale and we need to be able to reach out to those communities and people who are underserved.

Senator MENENDEZ. Thank you for those great insights. You know, with climate change causing more frequent and more intense natural disasters, small businesses face unprecedented risk to their operations. Furthermore, low-income and minority communities have been found to be more likely to face the impacts of these natural disasters. In the aftermath of Hurricane Sandy, New Jersey Community Capital, a CDFI in my State, raised \$3 million in lending capital in a matter of weeks and provided small businesses with flexible, low-interest loans to help recover from the storm, resulting in over 100 jobs that were saved. That is just one example.

Ms. Kucey, what role should CDFIs have in helping small businesses and communities recover from natural disasters? And how have MDIs played a role in disaster recovery, in Puerto Rico particularly, after Hurricane Maria?

Ms. KUCEY. Well, we were the first credit union to reopen in Puerto Rico after the hurricane. So that really enabled us to help a lot of people. We knew it was a life-defining moment for many of our members, and we knew that we had to act fast.

And we did that through offering no-cost, zero percent APR, short-term loans, deferment of existing loan payments, elimination of transactional fees, and financial coaching for our members who were dealing with active insurance cases and attempting to rebuild their homes. We also provided \$17 million in loans to assist people and enable them to replace household appliances, furniture, and autos.

And after the hurricane, we actually had a very unique program where we assisted Puerto Ricans that were moving from the mainland, and we assisted them in transporting their vehicles and coming up with first and last month rent and rental deposits which, as you can imagine, quite high in Miami.

So we offered a variety of programs to get them through and help them recover after the hurricane.

Senator MENENDEZ. I see. I see my colleague, Senator Tester. I do not know if he has had a chance to ask his questions yet, but if not, I will yield to him.

Senator WARREN. Thank you, Senator Menendez. It is my responsibility to call on Senator Tester now. Thank you.

Senator Tester.

Senator MENENDEZ. I did not know if you were still on. Thank you.

Senator TESTER. Well, thank you, Senator Menendez and Senator Warren. It is great to get doubly recognized today.

And I want to thank the panelists for being here.

Look, CDFIs and MDIs in my State of Montana, they provide critical resources for communities all across our State. Their efforts have been tireless and persistent, and it has allowed our Main Street businesses to access the Paycheck Protection Program as this pandemic started.

And I want to tell you a comment was made previously, I think, by Mr. James. The work that the CDFIs did in our State to get this Paycheck Protection Program out, when big banks could have cared less, it was stellar. And I want to thank you for that.

But they also help us in home ownership, down payment assistance programs, and allow Montana families to realize the dream of home ownership, piecing together the financing for new and improved community facilities. The small community folks and nature of these institutions is a part of what makes their work so impactful, but it also can mean that it is harder for folks to get access or even know about these great resources.

So, Mr. James, from your work in the industry, are there barriers to the growth and scale necessary to reach more of the folks in your community left out of the financial mainstream?

Mr. JAMES. Thank you, Senator Tester. The short answer is, yes, there are barriers. The biggest one in my estimation, in particular for the MDIs, is lack of scale, and that lack of scale is due to a lack of capital. And in particular in the African-American community our institutions have had a very historic, longstanding lack of access to the traditional capital markets, which has constrained our ability to grow and be able to reach deep into the community, to make sure that they have access to mainstream financial services.

So that is one of the reasons why we are so enthusiastic about the ECIP program, which is going to put some historic amounts of capital at play in our sector. But I do want to make sure that I point out that many of our institutions were unable to access ECIP because of an unfortunate situation in regards to how regulation gets applied to many of our institutions.

So our banks are regulated just like every other bank. We are FDIC-insured, and so we have to be regulated by either the OCC or the FDIC. And those regulatory bodies are under a congressional mandate from the Financial Institutions Reform, Recovery and Enforcement Act of 1989 or FIRREA. In section 308 of that act it says that the regulators and the Department of Treasury and the Federal Reserve have an obligation to preserve and promote MDIs.

Yet, since 2008, over half of the Black-owned banks have failed. And what we found is that there is an uneven application of regulation when it comes to our supervisory authorities that do not take into account the mission that we provide and the specialized business models that we have to use in order to serve underserved communities.

And so one of the things that we would like to see is a revisiting of how our institutions are regulated, not to make them less safe or sound, but just to take into account the fact that we are banking people who are harder to reach, who have less resources and are harder to serve so that we can be able to keep more MDIs around and alive so that we can access more capital and provide more services to these communities that are so desperately in need.

Senator TESTER. Thank you for that. Thank you for that answer, and you answered my second question almost.

Ms. Kucey, are there similar barriers that you see in the credit union world?

Ms. KUCEY. I am sorry. Could you repeat that question?

Senator TESTER. Are there similar barriers that you have seen in the credit union world?

Ms. KUCEY. Well, you know, we are not able to raise money through the capital markets. There is no secondary market or subordinated debt. So you know, I know that that is a challenge to many credit unions.

Senator TESTER. OK. And for both of you, is one of the barriers that you see that Americans simply do not know about CDFIs? Go ahead.

Ms. KUCEY. I mean, that is possible, definitely. You know, I am sure Mr. James is the same. We are involved in quite a bit of outreach to get the word out there.

Mr. JAMES. Yes, I agree. I mean, there is a lot of outreach, but I do think that we can make the public much more aware of what we are doing and the services that we provide. And so—you know. But again that goes back to scale and the ability to, you know, engage in the kind of marketing campaigns that are necessary to kind of get people—make sure that people are aware of what we are doing.

We do a lot of this on a one on one basis, and it is relationship based. And we do not want to ever lose that. But every time I turn on the TV and I see an ad for a new neobank or a digital, you know, sort of bank replacement or fintech company, I think about the fact that they are kind of targeting a lot of the same communities that we want to serve. And we want to make sure that we are able to give those communities fair and responsibly priced products in addition to, you know, a slick marketing campaign.

Senator TESTER. Well, I just want to thank you both for what you do, and I appreciate you being in front of the Committee today. And hopefully, we can continue this conversation moving forward because I think you are an incredibly important resource to have out there for folks to really allow our Main Street businesses and families to thrive.

With that, I will kick it back to you, Senator Warren.

Chair WARNOCK [presiding]. Thank you so very much.

Our Chairman of this Committee, Senator Brown.

Chairman BROWN. Well, thank you, Mr. Chair.

A couple of first comments I would like to say. Thank you, Mr. James, for your support of a fellow Georgian, Lisa Cook, for the Federal Reserve. It is one of the President's outstanding appointments and one that I would credit your Senator with helping to encourage the President. They call our role in nominations—the

President does the nominations, but we advise and consent. And let us just say that your Senator, Mr. James, your Senator did a lot of advising to the President on this for the banker, not the banker, the economist from Milledgeville, Georgia. And so thank you for weighing in and thanks for what you do with the National Bankers Association, too.

And, one other comment and then I just have one question. I am so appreciative of Senator Warnock as the Chair of the Subcommittee. We, the Democrats, have been in control of this Committee, been chairing this Committee and other committees, in large part because of his victory and the other Georgia Senator.

But one of the things I have really liked watching is our Subcommittee chairs on this Committee, Subcommittees that were not very active in the past, have become very active. This is Senator Warnock's second hearing, first one this year. Senator Warren, Senator Smith, Senator Menendez, and Senator Warner all understand the role of subcommittees, and it makes this place run better. So thank you for that.

And thanks to the witnesses on the importance, the critical importance, of CDFIs and MDIs.

So my question, Mr. James, is for you. I will just have one question. I know Senator Warnock is doing many things today. Mission-based lenders like yours are often the best and sometimes the only option for workers to get basic financial services and for small businesses and underserved communities to get the funding they need to start or expand their businesses. It is what I hear from MDIs and CDFIs, and I hear that from communities in Ohio.

In Build Back Better, we include additional funds, investments for CDFIs that support affordable housing and investments. You have touched on those issues with my colleagues. What will happen—walk through what happens if we are successful with Build Back Better in doing more investments in CDFIs and MDIs. What does it mean to Carver Financial? What does it mean nationally with the way you look at things from a National Bankers Association perspective?

Mr. JAMES. Chairman Brown, thank you so much for the question and thank you for your support and comments regarding Dr. Cook and Senator Warnock.

Yes, in response to your question, what I see is with both the ECIP program, the infrastructure package, and with the proposed Build Back Better legislation really a virtuous cycle where we can not only strengthen the institutions but also, much more importantly, strengthen the communities that we serve and make them much more resilient.

And so, for example, if we can connect the dots between the capital that is coming into our sector through ECIP and the dollars that are going to be invested in America's infrastructure, and make sure that not only our banks have an opportunity to provide financing where it is needed on infrastructure projects that are to rebuild communities that oftentimes were destroyed by the way that infrastructure in America has been placed over many decades but also put people to work, put minority-owned businesses to work, rebuilding that infrastructure, doing new things like placing EV

charger—EV charging stations in communities of color across the country, and let our banks be the financing entities for that.

If we can connect all those dots, we really, you know, lift the entire economy. We help to reduce the racial wealth gap. We can reduce the home ownership gap. We can create long-lasting job opportunities for everyone and have the kind of environmental impacts and overall health impacts that we would like to see. And so that is what I sort of envision if we are able to see all these different pieces come together, not just in words but also with action and intentionality.

Chairman BROWN. Thank you, Mr. Chair.

Chair WARNOCK. Thank you so very much, Chairman Brown, and thanks to all of our witnesses. Thank you, Mr. James, Ms. Kucey, Mr. Griffith, for sharing your important perspective here today.

It was particularly poignant for me to hear, even as Mr. James made his closing statement, talk about the work being done by the CDFI that is Carver Savings Bank, literally sits in the kind of community that he described, communities that have literally been split in two. Federal public policy makes a difference, sometimes positively, negatively. That bank sits near Interstate 16, which literally split a historic Black community in two, putting people on the other side, literally, of prosperity. This is something that this Committee has also tried—is focused on addressing as we talk about reconnecting communities. That bill seeks to address that.

And it is right there that that CDFI, like others, are doing their work. Similarly, Citizens Trust Bank, near my church, near a community split in two in the name of urban renewal at a different time in America. And so these banks are responding to disinvestment over a long period of time.

And so I am grateful for all of our witnesses for taking the time to be with us today and for providing their testimony. Today's hearing highlighted how important these institutions are in helping families and small businesses and communities to prepare, survive, and recover from crisis. And I look forward to working with my colleagues on both sides of the aisle to continue to ensure that they have adequate resources to achieve their mission of helping the underserved.

I am grateful for Ranking Member Tillis's comments. We certainly are not adverse to transparency, accountability, getting the kind of data that we need in order to make these institutions as effective as possible.

And as I said at the onset, this topic is about creating an economy that works for all Americans and about ensuring that hard-working families are not swindled out of a shot at financial stability.

For Senators who wish to submit questions for the record, those questions are due 1 week from today. That is Wednesday, February 16th.

For our witnesses, you have 45 days to respond to any questions. Thank you again.

And with that, this hearing is adjourned.

[Whereupon, at 3:48 p.m., the hearing was adjourned.]

[Prepared statements, responses to written questions, and additional material supplied for the record follow:]

PREPARED STATEMENT OF CHAIR RAPHAEL WARNOCK

I'm honored to Chair this Subcommittee and to work with Ranking Member Tillis to ensure stability in our banks, credit unions, and other financial institutions that serve families, small businesses, and communities in Georgia and around our country, and to ensure that our communities have equal access to the financial resources that build an economy that works for all Americans.

Now that brings me to the topic of our hearing today, which will examine Community Development Financial Institutions, or CDFIs, and Minority Depository Institutions, or MDIs, and the role that they play in supporting communities, creating jobs, boosting our economy, and helping small businesses to thrive. We will also examine the roles they play to help communities build resiliency against the crisis, like the pandemic, overcome crisis, and, importantly, recover from the crisis, so that our communities do not simply survive, but thrive.

Finally, I hope that our witnesses will discuss ways that Congress can better support the work they do every day to grow our economy from the bottom up.

The economic turbulence of the COVID-19 pandemic has pushed working families to the brink, often forcing them to choose between their health and their livelihoods. Thanks in part to the aid passed by Congress to combat the pandemic, our Nation is experiencing one of the quickest job market recoveries ever seen.

Last month, the Georgia Department of Labor reported that the State's unemployment rate is now 2.6 percent, with 97 percent of jobs lost during the height of the pandemic now recovered. Last week, the jobs report showed that jobs rose by 467,000, defying the expectations of many experts.

Critical in facilitating this recovery has been the work by CDFIs and MDIs. I appreciate that we have two before us here today, to talk about the work that they are doing even now, in their respective communities.

Let me say that this is also personal for me: this is not theoretical. In addition to serving as a Senator for Georgia, I'm also the Senior Pastor of the historic Ebenezer Baptist Church, spiritual home of Martin Luther King, Jr., and John Lewis.

The bank our church uses, Citizens Trust Bank, is in fact one of the many CDFIs and MDIs in Georgia that have been helping families and institutions in our community to thrive. I know this firsthand.

And as a pastor and as a Senator, I see my work as grounded in serving others and my community—and that's what CDFIs and MDIs are doing: they are serving others and the community.

Whether it has been acting as our Nation's fiscal first responders, immediately there to assist families and small businesses facing the financial unknown during the first weeks of the pandemic or facilitating the flow of Federal aid to communities, CDFIs and MDIs provided economic stability and certainty to millions of Americans, allowing them to focus on the health and safety of themselves and their children.

In Georgia, the Atlanta-based CDFI Access to Capital for Entrepreneurs, or ACE, immediately sprung to action early in the pandemic to help small businesses. In the first months of the pandemic, they worked with their clients to offer emergency funds, including Paycheck Protection Program loans, and they worked with local development authorities and investment partners to give flexibility for small business borrowers as the economy recovered. These actions by just one CDFI saved hundreds of jobs in my home State of Georgia.

The Federal Reserve Bank of San Francisco has rightly referred to CDFIs as "economy shock absorbers for . . . communities in the worst of the downturn." These institutions make sustainable investments within our communities. They are members of our community. They know the folks in the community. They understand these communities. And they have the correct incentives to help communities prepare, work through, and recover from the crisis.

CDFIs are also helping communities protect themselves against climate disasters. In Georgia, CDFIs have collaborated to begin offering Green Loans, which is capital provided to small businesses in the State to help them have a business that is more eco-friendly, such as funding energy-efficiency improvements. These investments help to create green jobs and they push Georgia and our Nation towards a sustainable future.

Even with the work done by CDFIs and MDIs to help communities, the data show that we still have more work to do. In the crisis we are currently living through, there's no doubt that the jobs recovery, as strong as it is, is uneven. Men have entirely recovered their job losses since the pandemic began, while there are 1 million fewer women in the labor force than in February 2020.

Unemployment among Black Americans remains elevated, and if history is any indicator, rural communities, like those in my home State of Georgia, will lose re-

sources and these same communities will struggle to bounce back, as they see resources leave their communities. The number of minority depository institutions fell by 31 percent from 2008 to 2018, even as the need for these institutions remains higher than ever, and there are even those who wish to defund the CDFI Fund program permanently.

PREPARED STATEMENT OF SENATOR THOM TILLIS

I want to thank Chairman Warnock for holding this hearing, our second for the Subcommittee on Financial Institutions and Consumer Protection. Also thank you to the witnesses for your willingness to testify today.

I have long been an advocate for a resilient and varied banking ecosystem, one that blends a healthy mix of globally systemic financial institutions, super-regionals and regionals, all the way down to local community banks. Banks and credit unions of all different sizes bring varied missions and capabilities to their customers, allowing individuals to select the banking experience best tailored for them. And I agree that CDFIs and MDIs fit into an important niche in that system.

This was apparent during the pandemic, when financial institutions of varying sizes across the banking ecosystem stepped up to provide economic relief to American businesses and workers, most notably through the Paycheck Protection Program (PPP). In total, the SBA approved over 11.8 million PPP loans, totaling \$799.8 billion. CDFIs for their part, approved over 350,000 PPP loans totaling \$8.4 billion. For that I thank you all.

That said, just as I raised concerns in our previous Subcommittee hearing over the lack of data and transparency that has likely led to significant fraud in the COVID-era unemployment insurance programs, I likewise have concerns with the similar lack of data and transparency that critics of the CDFI Fund have long identified.

Put bluntly, policymakers simply do not receive enough information to adequately judge how effective the lending operations of CDFIs are. Consider a report on CDFIs and the CDFI Fund compiled by the Carsey Institute at the University of New Hampshire on behalf of the Department of the Treasury. The authors write, "In developing this report, the research team encountered significant data limitations at every turn" and identify "inadequate data and nonstandardized auditing practices" as significant barriers to CDFIs achieving better capitalization.

The authors go on to say, "... it is currently simply impossible to make the most routine analyses that are normally conducted with other classes of loan assets. It is not possible, for example, to create a breakdown of default rates or prepayment speeds for a given class of CDFI loans, or even to provide a breakdown of borrower credit scores. What is ironic about this is that CDFI managers feel they are swamped with reporting requirements, which they routinely fulfill. It is difficult to reconcile how CDFIs can be doing so much reporting yet have so little to show for it."

I mention this not to vilify CDFIs but to point out what I believe are systematic deficiencies in CDFI oversight and transparency that can prevent them from most effectively serving the communities they reside in. Given the tremendous level of funding bestowed on CDFIs and MDIs over the course of COVID-19, I believe these deficiencies are especially important to examine and rectify.

Just last year, the CDFI Fund received the same level of funding as it previously would have been appropriated over an entire decade. Additionally, Congress established the Emergency Capital Investment Program (ECIP) which provided an additional \$9 billion fund to help stabilize CDFIs and MDIs.

My Democratic colleagues also resuscitated the Obama-era State Small Business Credit Initiative (SSBCI) in the partisan reconciliation package they passed early last year. This \$10 billion program, which will also direct money towards CDFIs, was rightly allowed to expire due to chronic inadequacies that resulted in only 4 States whose SSBCI programs were in compliance according to an Inspector General report.

North Carolinians are certainly familiar with the lack of oversight over of taxpayer dollars that SSBCI doled out. The founding president of the NC Rural Center resigned and was withheld severance following a State audit which detailed financial malpractice at the organization.

Without greater transparency and data requirements, I'm concerned we could see the same situation play out again. With a price tag in the tens of billions between SSBCI, ECIP and the 12-fold increase to the base CDFI Fund, it is crucial that policymakers are equipped with concrete data that provides an accurate view of the impact that CDFIs and MDIs are making. While a press release touting how much

money went out the door is good, comprehensive data and greater transparency on how the money was spent and how successful it was in supporting economic opportunity is better. I look forward to examining these questions with the witness here today. Thank you Mr. Chairman.

PREPARED STATEMENT OF ROBERT JAMES II

PRESIDENT AND CEO, CARVER FINANCIAL CORPORATION, AND CHAIRMAN, NATIONAL BANKERS ASSOCIATION, SAVANNAH, GEORGIA

FEBRUARY 9, 2022

Chairman Warnock, Ranking Member Tillis, and Members of the Subcommittee, good morning and thank you for this opportunity to testify on roles Minority Depository Institutions (MDIs) and Community Development Financial Institutions (CDFIs) serve in supporting communities. It gives me great hope that one of this Subcommittee's first hearings of the new year is aimed at shining a light on this critical issue.

My name is Robert James II, and I am President of Carver Financial Corporation, parent of Carver State Bank of Savannah, Georgia, and Chairman of the National Bankers Association (NBA). The NBA is the leading trade association for the country's MDIs. A critical part of our mission is to serve as an advocate for the Nation's MDIs on all legislative and regulatory matters concerning and affecting our member institutions as well as the communities they serve.

Like Carver, many of our member institutions are also CDFIs and are the only banks with a primary mission to serve consumers and businesses who are underserved by traditional banks and financial service providers. Members of our association are on the front lines, trying to reduce the economic hardship in minority communities, which are historically the most vulnerable during good times and bad. We believe our banks are best positioned to help our communities bolster their defenses in the face of climate change, health emergencies, and overcome many of the systemic issues that have placed them at an economic disadvantage.

The Senate Banking Committee and Chairman Warnock have been instrumental in the inclusion of several provisions in multiple legislative packages adopted during the course of the last year that ensure that MDIs and the communities we serve are not forgotten during times of crisis.

The creation and implementation of the Emergency Capital Investment Program and the \$3 billion increase in funding the CDFI fund can help banks like those within the NBA scale up and provide more access to credit for individuals and small businesses in low- and moderate-income communities most impacted by the pandemic. The Bipartisan Infrastructure Bill also provides billions of targeted dollars that can be instrumental in addressing the needs in our communities created by a changing climate and systemic environmental injustice. The NBA applauds the Congress for the adoption of these important measures and very much look forward to continuing to work with you on additional legislation to ensure that our communities, hardest hit by the pandemic and systemic inequity, experience lasting, material changes that will support broad and deep economic growth that will benefit all Americans.

The growing climate crisis has disproportionately hit low-income Black and Brown communities in great measure because they are under resourced. These are the same communities that have been hit hardest by the COVID-19 pandemic. The unequal burden that COVID-19 and climate change has placed on communities of color is not coincidental. Decades of income disparity, unequal access to health care, housing discrimination, and residential segregation have resulted in uneven resiliency among communities of color and other low-income communities. This inequity threatens our Nation as a whole.

Low-income neighborhoods are disproportionately victimized by environmental hazards and are far more likely to live in areas with heavy pollution or elevated flood risk. African Americans, Latinos, and Native Americans get sick and die from the COVID-19 virus and other health pandemics at rates higher than their White counterparts, and higher than their shares of the population. Similarly, people of color are more likely to die of environmental causes, and more than half of the people who live close to hazardous waste are people of color. These communities are most likely to suffer in natural disasters like floods and hurricanes, or man-made disasters such as pollution-related illness.

Tackling economic inequity and eliminating the racial wealth gap is the best way to combat environmental and health injustice and ensure resilience in communities of color. This goal is important not just for those directly impacted by racial dis-

crimination but also for society at large, as research shows that racism harms the whole economy and manifests in different ways, even in the distribution of Government aid.

One of the most noticeable effects of environmental injustice occurs during natural disasters. After a natural disaster hits a community, Government aid is typically sent to the area to rebuild infrastructure and restore homes and businesses. However, the unequal dispersal of aid is one way in which minorities and low-income communities are hurt by natural disasters. In a study done by Rice University and the University of Pittsburgh, it was found that predominately White counties saw an increase in average wealth after natural disasters while predominantly minority counties saw a wealth decrease. The study notes that White communities saw higher levels of reinvestment in their communities after natural disasters in comparison to their minority counterparts.

Additionally, it was found that White families in communities with significant damage from natural disasters saw an increase in wealth due to generous reinvestment initiatives. However, minority families in communities with similar damage from natural disasters saw a smaller increase in wealth or they actually saw a decrease in wealth. Furthermore, low-income Americans are more likely to suffer from the consequences of tropical storms due to inadequate infrastructure and lack of proper insurance. Low-income and minority populations are also more likely to live near industrial facilities and are therefore at a higher risk for chemical spills and toxic leaks resulting from tropical storms. For example, 60 percent of African Americans in Baltimore live within one mile of a Toxic Release Industry, and 70 percent of African Americans live within 2 to 4 miles of one.

Traditionally following natural disasters, MDIs and CDFIs have served as a source of strength and an economic development engine due to their relative concentration in minority and low-income communities, and established relationships. This is especially true in African-American communities. Many of our institutions participate in numerous relief programs offered by various State and Federal Government agencies. Unfortunately, MDIs' smaller size, especially among African-American MDIs, has not allowed us to respond as quickly or with as much scale as many of these situations demand.

Our banks provide basic banking services to communities that are more likely to be unbanked or underbanked, but our impact is limited due to our small size, both in total assets and in number of institutions. Racial minorities, especially Black and Hispanic, are more likely to be unbanked and underbanked according to a Federal Reserve Report on the Economic Well-Being of U.S. Households in 2020. MDIs can be a solution to this problem if our banks can access more capital and scale up. Several studies have shown that minorities, especially Black and Brown Americans, are more likely to have bank accounts and access to fair and reasonably priced mortgage and small business loans if there is an MDI in their neighborhood.¹ It is important to note that an average of 70 percent of minorities do not have a bank branch in their neighborhood. At the same time, MDI branches are in census tracts with a 77 percent minority population. Properly scaled, MDI banks are best positioned to provide access to capital for minority communities.

Unfortunately, MDIs' smaller size, especially among African-American MDIs, has not allowed them to respond as quickly or with as much scale as the current economic situation in LMI communities demands. MDIs only make up 3 percent of all American banks, and Black-owned MDIs only 0.4 percent. When looking at total bank assets, the disparity is even more stark. As of the second quarter of 2021, Black banks held about \$6 billion dollars in total combined assets, as compared to over \$22 trillion dollars in total assets in the U.S. banking system as a whole. Put another way, Black-owned banks only control 27 thousandths of one percent of total bank assets in the United States.

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

¹ Broady, et al., "An Analysis of Financial Institutions in Black-Majority Communities: Black Borrowers and Depositors Face Considerable Challenges in Accessing Banking Services", Brookings (2021); Florant, et al., "The Case for Accelerating Financial Inclusion in Black Communities", McKinsey and Company (2020); Barth, et al., "Minority-Owned Depository Institutions: A Market Overview", Milken Institute (2019).

regulators' overall mission to maintain stability and public confidence in the Nation's financial system.

The Treasury and bank supervisory agencies have unfortunately failed to preserve and promote MDIs. The overall number of MDIs has declined by 33 percent since 2008, and among Black-owned MDIs, the problem is especially pronounced, as Black-owned banks have suffered from many of the same conditions and structural lack of access to capital as the Black community as a whole. Of the 4,377 total insured commercial banks in the U.S., only 144 are MDIs, and only 19 of those are controlled by Black people. Prior to the Great Recession of 2008–2009, there were 41 Black-owned commercial banks in the United States, a loss of more than 50 percent.

Like most community banks, MDIs primarily make loans secured by real estate. The legacy of redlining and associated chronic undervaluing of real estate in Black communities created lower asset values for minority banks' collateral, which led to massive write-downs of bank collateral.

Tier 1 Capital, or the equity invested in a bank, is the most critical component of the resilience of any bank, and it is what allows banks to grow and scale. MDIs, particularly African-American MDIs, have historically lacked access to capital markets that would allow them to scale. Without sufficient Tier 1 Capital, not only are banks limited in the amount of deposits they can take in, but they are also hampered in their ability to withstand loan losses. Without access to capital markets or large pools of high-net-worth investors, many Black MDIs were forced to exhaust their capital reserves, failing as a result. Those who have been able to participate in relief efforts have been limited in the amount of loans that can be extended, even with Federal guarantees or direct support, as they are unable to weather loan significant loan losses. Following natural disasters, many financial institutions, especially those in underserved communities, often have increased delinquent loans. Although Federal Government efforts to stand up loan loss reserve and other similar programs have been somewhat beneficial, it has been the experience of many MDIs many of these programs are not sufficient without adequate capital at the bank level and less red tape at the Federal level. Both create bottlenecks when speed is necessary.

Access to capital will allow MDIs to not only respond better during times of crisis but allow us to reverse the situations in our communities that lead to worse outcomes during natural disasters. The ECIP capital is a historic step in the right direction, but unfortunately many of our banks were not able to access ECIP due to prior regulatory challenges, based on examination standards that do not take into account the unique business models many mission driven banks need to employ to provide basic banking services in markets that would otherwise be ignored by the financial services mainstream. We need to find additional ways to direct capital and business opportunities to those banks and the communities they serve.

President Biden and Congressional Democrats have made good on their promise to steer money toward frontline communities as the United States makes historic investments in climate resilience and mitigation. Provisions in the recent enacted infrastructure law and a \$29 billion provision included in the proposed Build Back Better bill go a long way in achieving this goal, but MDIs must be included in the financing opportunities that will arise, giving our banks opportunity, but more importantly allowing us to connect our customers to opportunities to strengthen their businesses, add more jobs, and thereby make their communities more resilient.

While there are many provisions in the Bipartisan Infrastructure Law aimed at addressing environmental inequities, I will focus on one in the context of today's hearing. The law invests in the deployment of electric vehicle (EV) charging infrastructure as one of many important ways to confront the climate crisis. Through a National Electric Vehicle Formula Program (EV Charging Program), the law provides funding to States to strategically deploy EV charging infrastructure and to establish an interconnected network to facilitate data collection, access, and reliability. The law also establishes a discretionary grant program for Charging and Fueling Infrastructure (Charging and Fueling Infrastructure Program) to strategically deploy publicly accessible EV charging infrastructure and hydrogen, propane, and natural gas fueling infrastructure along designated alternative fuel corridors or in certain other locations that are accessible to all drivers of such vehicles. The law directs DOT, in coordination or consultation with the Department of Energy (DOE), to develop guidance for both programs. We believe that MDIs and our customers—minority owned businesses—should be direct and active participants in the deployment of this new infrastructure.

The implementation of the new EV charging station programs and the disbursement of unprecedented levels of Federal funding will provide for more access to cleaner vehicles, reduced demand for polluting fuels and provide job opportunities.

While the law does not speak to specific financing models, the Biden administration has been vocally committed to ensuring that the funds available be utilized in LMI communities and that institutions who serve these communities be intrinsically involved. We believe this is an area where MDIs should actively participate. However, the need for capital at our institutions poses a challenge for broad participation by many of our institutions. We can combat this lack of capital by banding together in syndicates to provide financing for this critical infrastructure in our communities. We can also manage Federal contract funds in a transparent and equitable way. Perhaps most importantly, our banks can connect underrepresented minority owned businesses to contract opportunities to build the infrastructure in their communities, providing not only critical new infrastructure, but strengthening minority businesses, creating quality jobs, and making the communities we serve more resilient. We believe our participation is crucial as it ensures that the promise of the program will be realized in the communities we serve for generations to come.

The pending BBB contains a provision establishing a “Greenhouse Gas Reduction Fund” that for the first time would infuse green investments into a vast network of local financiers—some of which have decades-long connections with the very communities that are already, and disproportionately, feeling the effects of rising temperatures. Among them are MDIs and CDFIs.

As Senator Van Hollen recently noted “The bottom line is we have two important goals. Obviously, we want to deploy clean energy technology as quickly and efficiently as possible. And we also want to make sure that . . . communities that have been overlooked in the past are not overlooked again. CDFIs have an essential role to play in the Build Back Better agenda, right? I mean, [especially in] making sure that communities that have often been overlooked when it comes to important investments have that capital available to them.”

While we agree with the Senator’s sentiment, many MDIs and CDFIs still face barriers to expanding their green portfolios. Those obstacles include hiring and training staff to develop and run new loan products and forming partnerships with the installers or service providers of electric vehicle charging stations, heating, ventilating and air conditioning systems; solar panels; and more.

Most, if not all, of our member institutions already have robust vetting and risk assessment processes in place when it comes to examining, for example, mortgages or small business loans. But many still are working to build the same sort of capacity and expertise when it comes to clean energy. Additional Federal funding focused specifically on global warming in conjunction with increased capital could help chip away at those obstacles.

Conclusion

The NBA again applauds the Subcommittee for holding this important hearing and for the full Committee’s ongoing efforts to ensure equity for all communities across the country. People of color are on the front lines of the climate crisis and the health crisis. For decades, power imbalances have constrained the ability of communities of color to respond to the impact of climate change and contribute local knowledge to climate solutions. These same imbalances leave our communities more vulnerable to health crises. Building political and economic power, as well as speaking up about the challenges, are critical components of climate resilience and improving the social determinants of health like stable employment and quality housing. We have begun the monumental task of addressing the root causes of inequity in health outcomes, many of which revolve around economic disparity. It’s time to expand the conversation to include the economic roots of climate injustice to ensure that all people, regardless of race and ethnicity, are guaranteed protections from the worst effects of climate change. While we commend Congress on its leadership to date in responding to the current crisis, we firmly believe much work remains to be done in supporting the MDI sector as we respond to the needs of the communities and small businesses that our member institutions serve that have disproportionately shouldered the burden. In this regard, the NBA and its member banks look forward to working closely with the Committee and Subcommittee on workable solutions that ensure LMI communities and minority small business do not just simply survive but ultimately thrive. Thank you again for the opportunity to testify. I will be pleased to answer any questions.

PREPARED STATEMENT OF JEANNE KUCEY

PRESIDENT AND CEO, JETSTREAM FEDERAL CREDIT UNION, ON BEHALF OF THE NATIONAL ASSOCIATION OF FEDERALLY INSURED CREDIT UNIONS, MIAMI LAKES, FLORIDA

FEBRUARY 9, 2022

Introduction

Good afternoon, Chairman Warnock, Ranking Member Tillis, and Members of the Subcommittee. My name is Jeanne Kucey, and I am testifying today on behalf of the National Association of Federally Insured Credit Unions (NAFCU), where I served on the Board of Directors for 9 years including the final 2 years as Board Chair. I currently serve as CEO of JetStream Federal Credit Union, a low-income designated Community Development Financial Institution (CDFI) operating in Miami-Dade County, Florida, and Puerto Rico. We are also classified as a Minority Depository Institution (MDI). Thank you for holding this important hearing today. We appreciate the opportunity to share our views on the important role that CDFIs and MDIs play in the economy and our communities. In addition to our testimony, NAFCU member credit unions look forward to continuing to work with you beyond this hearing to ensure access to robust financial services products for all Americans.

Founded in 1948 and headquartered in Miami Lakes, Florida, JetStream FCU has \$240 million in assets and serves more than 18,000 members in five locations, including one in Puerto Rico. Membership is open to those who live or work in Miami-Dade County, Florida, or in Carolina, Trujillo Alto, or San Juan, Puerto Rico. Today, the credit union offers a variety of products, including checking and savings accounts, credit cards, auto loans, home equity lines of credit, business loans, several types of green loans, and no credit check loans. We also offer a complete menu of remote services through mobile banking and various digital channels.

Background on Credit Unions

Credit unions serve a unique function in the delivery of necessary financial services to Americans. Established by an act of Congress in 1934, the Federal credit union system serves to promote thrift and make financial services available to all consumers, many of whom would otherwise have limited access to financial services. Every credit union is a cooperative institution organized “for the purpose of promoting thrift among its members and creating a source of credit for provident or productive purposes” (12 U.S.C. 1752(1)). Congress established credit unions as an alternative to banks and to meet a precise public need, and today credit unions provide financial services to over 127 million people. Since President Franklin D. Roosevelt signed the Federal Credit Union Act (FCU Act) into law nearly 88 years ago, two fundamental principles regarding the operation of credit unions remain every bit as important today as in 1934:

1. Credit unions remain totally committed to providing their members with efficient, low-cost, personal financial services; and,
2. Credit unions continue to emphasize traditional cooperative values such as democracy and volunteerism.

The Nation’s approximately 5,000 federally insured credit unions serve a different purpose and have a fundamentally different structure than traditional banks. Credit unions exist solely for providing financial services to their members, while banks aim to make a profit for a limited number of shareholders. As owners of cooperative financial institutions, united by a common bond, all credit union members have an equal say in the operation of their credit union—“one member, one vote”—regardless of the dollar amount they have on account. These singular rights extend all the way from making basic operating decisions to electing the board of directors, something unheard of among for-profit, stock-owned banks. Unlike their counterparts at banks and thrifts, Federal credit union directors generally serve without remuneration, epitomizing the true volunteer spirit permeating the credit union community.

Credit unions continue to play a very important role in the lives of millions of Americans from all walks of life. Since the Great Recession, consolidation of the commercial banking sector has progressed at an increasingly rapid rate. At a time when for-profit banks are deemphasizing the human touch for financial services, credit unions are second-to-none in providing their members with quality personal financial services at the lowest possible cost.

Credit Unions as MDIs, CDFIs

Credit unions are proud of their record of diversity. As you can see from the charts on the next page, credit unions outpace banks when it comes to MDIs and

in having female CEOs. According to NCUA's "2020 Minority Depository Institutions Report to Congress", at the end of 2020 there were 520 federally insured credit unions designated as MDIs, 417 of which also have the low-income credit union designation. Credit union MDIs are located in 37 States, Washington, DC, Puerto Rico, and the U.S. Virgin Islands. These institutions serve over 4.3 million members and tend to be smaller institutions; 82 percent of MDI credit unions have assets of \$100 million or less. They also tend to underperform growth in all categories, including asset size, membership, and loan volume, in comparison to the rest of the credit union industry, and the disparity is growing.

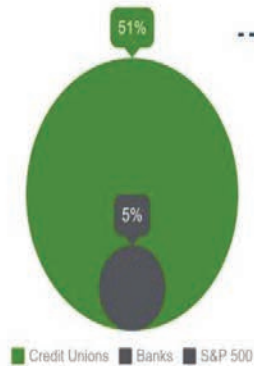
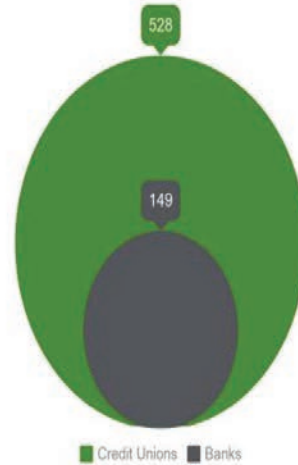
Credit unions are also proud of their participation in the CDFI program, which provides grants to allow credit unions to better serve low-income members and underbanked communities. There were 416 CDFI-designated credit unions as of December 28, 2021, up from 285 in November of 2018, serving nearly 17 million predominantly low-income consumers and communities of color. In addition to helping credit unions in low-income areas serve members in need, the CDFI program gives credit unions access to funds that they are not able to raise from the capital markets. As the country continues its pandemic recovery, NAFCU urges Congress to consider increased funding levels for CDFI programs in any future Fiscal Year appropriations bills. It is this program that gives credit unions like JetStream an important resource to help create programs to serve their communities.

Furthermore, while Congress is considering support for the CDFI funds, we urge you to ensure that the Treasury Department is given the necessary resources to clear out the current CDFI application backlog. As the number of credit unions applying to become CDFI designated institutions continues to grow, many applicants have seen the application process drag on as they await approval. NAFCU also supports legislative measures to streamline and modernize the requirements and application process to make it easier for institutions to be approved as a CDFI.

MORE DIVERSE

The credit union industry is committed to diversity and inclusion.

There are more than **3X** as many minority-designated credit unions as banks.



There are more than **10X** as many female CEOs in credit unions than in banks.

In 2011, JetStream became an NCUA designated low-income credit union, and a year later became CDFI certified. We were the first credit union to service both Miami-Dade County, FL, and Puerto Rico to do so. We are heavily vested in the prosperity of the communities we serve. We have supported our members during hurricanes, Government shutdowns, and most recently during the COVID-19 pandemic. Since 2011, JetStream has received \$5.8 million dollars in CDFI grants to support a plethora of programs, including small business lending and a resettlement loan program for low-income members. The grants also supported the Whole Again loan program, an initiative that provided \$17 million in consumer loans to replace goods and vehicles destroyed by Hurricanes Irma and María. In 2021, JetStream was awarded a grant to fund green energy and home rehabilitations. Since 2014, we have worked to ensure that every person employed at JetStream, including interns, receive certification in Community Development Certified Financial Counseling from the National Cooperative Business Association. This program trains our staff to identify financial distress within our membership and proactively work to prevent financial catastrophe.

Our membership is diverse, and reflective of the communities Jetstream serves:

- 71 percent of JetStream members are classified as low-income or below;
- 40 percent are classified as extremely low income;
- 67.5 percent of our members are Hispanic (27 percent of which are Puerto Rican)
- 18.8 percent of our membership is African American.

JetStream is also a “Juntos Avanzamos” credit union (Together We Advance), which is a community of credit unions committed to serving and empowering Hispanic communities. We were the first credit union in Florida to receive such a designation. JetStream is committed to meeting the needs of our members, and that has led us to offer a number of products to help immigrants and those with lower incomes, such as a second chance checking program, low dollar loans, and even a resettlement loan program for those moving from Puerto Rico to the mainland.

Jetstream, along with NAFCU, regularly works with Inclusiv, a certified CDFI intermediary and a national network of nearly 450 CDFI certified and minority designated credit unions. Inclusiv provides capital, makes connections, builds capacity, develops innovative products and services for community development credit unions (CDCUs).

Due to the geographical areas JetStream services, Hurricane Irma and Hurricane Maria critically affected our membership in September 2017. The two Hurricanes were a life-defining moment for many of our members, and we knew that we had to act. JetStream provided \$2.5 million of critical financial relief to our members during the first 8 months of recovery, including no-cost, zero percent APR short-term loans, deferment of existing loan payments, elimination of transactional fees, and financial coaching for our members who were dealing with active insurance cases and attempting to rebuild their homes.

We played a big role for our members with small businesses after the hurricanes. When Hurricane Maria hit the island of Puerto Rico, almost every household was affected. During this time, residents looked for ways to help their neighbors. One of our members saw the necessity on the island for accessible diesel gas to refuel generators in people’s houses. He and his wife bought a truck in the States and brought it to the island to start their new business, Chester Energia y Transportes. He worked with the credit union to open a business account to help their business get off the ground. Due to high demand, their business took off rapidly and they were able to assist other large and small businesses.

When the COVID-19 pandemic hit, Jetstream decided that the credit union’s branches would stay open. By strictly following CDC guidelines, we were able to keep our employees safe while serving our membership in their time of need. Jetstream maintained normal operating hours throughout the crisis. This also meant support for members of other credit unions through shared branching. Jetstream’s shared branching activity skyrocketed, earning recognition from Florida Credit Union Shared Services in their annual report.

In 2020, Jetstream launched a multipronged COVID-19 emergency relief program that included emergency loans, lines of credit, a 6-month payment deferral for qualifying loans, and fee waivers. Consumer loan deferments totaled 1,291, for a total of \$10.5 million, and fee income was reduced by 32 percent. Jetstream saw a reduction of \$348,011 to its net income. Net income for 2021 was positive, but not quite back to prepandemic levels. For us, this was an investment in our members during their time of need. I am proud of our team and their dedication to serve our members.

Our low-income members are more likely to live in urban heat islands with fewer trees and more pavement, as well as reside in housing with older building materials and appliances. In Miami, 65 percent of the housing stock is over 50 years old. As a result, there is a huge need for major repairs and retrofitting such as new roofs, installing impact windows, performing mold remediation, replacement of air conditioning units, and making energy-efficient upgrades. While our current Home Equity Credit Line product enables many of our members to finance these repairs, we have identified a segment of our membership that does not qualify for this type of loan due to a lack of equity, poor credit history, or high debt ratios. They are trapped in older, energy inefficient homes that are often in dire need of substantial repairs.

Our answer was JetStream's Increasing Climate Resiliency and Health Equity through Energy Efficiency (ICRHEEE) strategy, and we are fortunate to have recently been approved for a CDFI grant for this program. The ICRHEEE addresses these challenges with innovative Green Loan products and underwriting created to improve energy efficiencies for low-income homeowners and also help those who need major repairs to their homes, resulting in improved housing stock and increased household income. This strategy includes loan options that do not require equity and are lenient with respect to debt ratios and poor credit. The strategy also includes financial counseling, coaching, and community outreach. We are looking forward to unveiling these new products and services to our members in 2022 in an effort to meet more of the needs of our membership and the local community.

Energy costs have been rising across the U.S. and these rising costs have a disproportionately high impact, also known as energy burden, on low- and moderate-income (LMI) communities and communities of color. These are precisely the communities that have not had equitable access to financing critical energy efficiency and clean energy building upgrades that could ease this energy burden. As financial cooperatives committed to investing in strong and healthy communities, CDFIs, like JetStream, are uniquely poised to serve as vehicles to deploy affordable green loan programs that combat climate change while helping to lower the high energy burden on low- and moderate-income and communities of color. CDFI credit unions have the underwriting expertise and financial coaching capacity to reach a broad range of consumers and to connect the benefits of clean energy to household budgets.

As we work to address this, and as part of our involvement with Inclusiv, we have sent our lending team through their Solar Finance Training Program for CDFIs and other community-based lenders. In this training, CDFIs design and launch affordable green loan products for their communities—something we will bring to our ICRHEEE strategy.

Recommendations

As the Subcommittee examines approaches to aid CDFIs and MDIs, we believe it is important to properly fund Federal support for CDFIs and MDIs. This includes increased funding through the annual appropriations process for both the CDFI Fund and the NCUA's Community Development Revolving Loan Fund (CDRLF). The CDRLF is an important tool for credit unions to serve low-income areas by providing grants to low-income credit unions to meet needs in those areas, often to provide technology resources to help members. During the pandemic, CDRLF requests have far outpaced available funding. NCUA Chairman Todd Harper has specifically called for additional CDRLF funding to help low-income credit unions.

Additionally, we would support creating a CDFI Crisis Fund that would automatically make additional capital available to CDFIs to address natural disasters and economic crises when they occur in their community as proposed by Senator Brian Schatz.

Finally, we would urge you to consider the following areas to assist CDFI and MDI credit unions:

Improve the Process for Certification as a CDFI

As noted earlier in my testimony, NAFCU has heard from many credit unions that have been waiting several months for certification as a CDFI with little clarity or insight on their status. While it is important that the CDFI Fund have the resources to handle the volume of applications in a more timely manner, it is also critical that technical issues or overburdensome requirements do not hamper efforts by credit unions to serve those who want to help members in need. We believe that the CDFI Fund is best situated as a resource for institutions, and not a regulator. Additionally, transparency is key. As such, we believe the process for certifying, and maintaining certification, for a credit union, as an insured depository institution (IDI), should recognize our unique nature. Examples of how this can be done include:

- Ensuring that the “primary mission test” is not a hurdle for credit unions as not-for-profit member-owned cooperatives;
- The “target market test” for certification should focus on those to whom the credit union provides a wider range of financial services, and not just to whom it has already made loans, to meet thresholds; and
- Allowing a longer “cure period” to maintain certification that ensures credit unions can keep existing CDFI-backed programs in place. Credit unions, as not-for-profit, member-owned financial institutions, often face limited resources and staffing, which may impact their ability to quickly cure any issues, but they are still required to meet the same regulatory burdens and subject to the same market pressures as large, for-profit banks. A longer “cure period” for CDFI credit unions will allow us to meet the challenges of unforeseen events like natural disasters and pandemics—and deal with existing regulatory requirements, some of which are unique to credit unions—all while continuing to serve our communities.

Allow All Credit Unions To Serve Underserved Areas

As has been noted by Members of Congress across the political spectrum, credit unions were not the cause of the Great Recession, and an examination of their lending data indicates that credit union mortgage lending outperformed bank mortgage lending during the downturn. This is partly because credit unions did not contribute to the proliferation of subprime loans. Before, during, and after the financial crisis, credit unions continued to make quality loans through sound underwriting practices focused on providing their members with solid products they can afford.

In addition, both during and after the crisis, credit unions have been committed to helping the portions of their communities that are most in need obtain high quality products and services. This has been demonstrated once again during the pandemic. Unfortunately, credit unions that want to do more are limited in who they can serve by the FCU Act, which restricts credit unions to serving a distinct field of membership. Many credit unions want to help those in underserved areas but the ability to add underserved areas to their fields of membership is limited. Currently, only multiple-common-bond credit unions have the authority to add underserved areas. We urge the Committee to amend the FCU Act to allow all credit unions the ability to add underserved areas to their fields of membership.

Loan Maturity Limits

The FCU Act has a general statutory limit on Federal credit union loans of 15 years, with a limited number of exceptions, such as mortgage loans for a primary residence. The rigid and limited set of exceptions to the FCU Act’s general 15-year maturity limit does not provide the NCUA with the ability to expand the types of loans that may be made with a longer maturity limit through regulation. For example, many military members may purchase a home to move to when their service ends, but because it is not their current primary residence, they may be unable to obtain a loan with a term longer than 15 years. Additionally, a number of credit unions have been approached by members wanting to obtain financing for solar loans with a longer term to make the loan more affordable. Both of these examples highlight the fact that the current 15-year limit is outdated and does not conform to maturities that are commonly accepted in the market today, resulting in credit unions turning away members in need and losing market share in a growing area of climate-friendly lending. In a rising interest rate environment, it is important that consumers have options for longer maturity products. We urge you to support S. 762, the Expanding Access to Lending Options Act, introduced by Senators Tim Scott, R-SC, and Catherine Cortez Masto, D-NV, to address this issue.

Allow GSEs To Purchase Non-Conforming Loans From CDFIs

An important aspect of the CDFI Fund is that it provides awards to CDFI institutions to allow them to finance mortgage lending for first-time homebuyers and be able to provide flexible underwriting for community facilities. CDFIs often provide educational services such as credit counseling and homebuyer classes to help their borrowers use credit effectively and ensure they are able to keep up with their loan obligations. However, the majority of the mortgages originated by CDFIs are considered nonconforming (as they do not meet the loan-to-value, debt-to-income, FICO score, or other requirements), and Fannie Mae and Freddie Mac (the Government-Sponsored Enterprises (GSEs)) are unable to purchase these loans. NAFCU has urged the Federal Housing Finance Agency (FHFA) to create a pilot program to allow the GSEs to buy such nonconforming loans from CDFIs because they are serving the exact communities that the GSEs aim to serve through their statutorily mandated missions.

Credit unions that are classified as CDFIs are best situated to originate loans to the communities most in need. NAFCU believes that one way to help address the widening home ownership gap for minorities would be for the FHFA to permit the GSEs to purchase mortgages like the ones made by CDFIs to their communities through new pilot programs with less stringent purchase criteria. Establishing such pilot programs will facilitate the development of a vibrant secondary market, thus ensuring the long-term viability and even expansion of such lending programs in the primary mortgage market. This would mean CDFIs could make more of these loans to support their communities and help resolve some of the access and equity issues currently impacting many borrowers. Should the FHFA prove unwilling to allow the GSEs to purchase these mortgages, we urge you to consider taking legislative action on behalf of CDFIs and the underserved areas they serve to bring about this change.

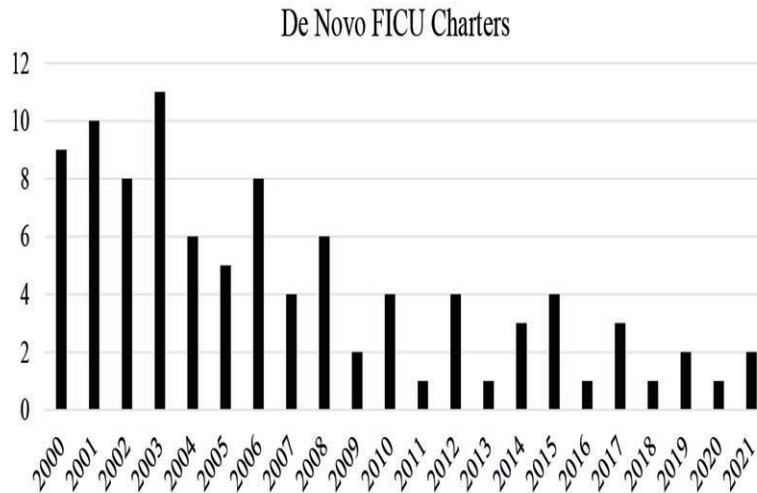
Federal Housing Administration (FHA) Lending

Credit unions in general, and especially credit unions designated as CDFIs and MDIs, play a vital role in supporting underserved communities. As noted above, to obtain and maintain their certification, CDFIs must demonstrate that at least 60 percent of their lending activity is directed to one or a combination of target markets: economically distressed geographies (Investment Areas); low-income targeted populations (LITP) and minority communities, specifically African Americans, Hispanics, and Native Americans (other targeted populations—OTP). One of CDFIs' most important values to these communities is their ability to provide responsible and affordable mortgage lending for first-time homebuyers, lending to small businesses, and offer flexible underwriting for community facilities. The financial products offered by CDFIs are designed to support the specific needs of the borrower, particularly low- and moderate-income, as well as minority borrowers, as most are fixed-rate and self-amortizing with lower origination fees. This keeps payments affordable and allows borrowers to decrease the principal, so the loan is actually paid off at the end of the term. Although these products provide much-needed credit in their respective communities, their specialized nature may set them apart from conventional mortgage products. NAFCU has urged the Federal Housing Administration (FHA) to introduce additional programs that provide insurance for CDFI loans and that make it easier for these communities to have access to FHA-backed mortgage products.

We recommend that Congress require the U.S. Department of Housing and Urban Development to conduct a study to determine the level of participation of CDFIs in FHA loan insurance programs and offer targeted training and resources to grow the number of CDFIs that are FHA-approved lenders.

De Novo Credit Unions

The rising cost of compliance deters many would-be de novo (start-up) credit unions. Additionally, the initial capital infusion and cash outlays are often too great for many communities and associations, and there is little to no return on investment. Starting a new credit union is essentially an altruistic endeavor, as there is no ultimate financial incentive for those that are successful, and the costs and hurdles can be discouraging. Furthermore, the complex chartering process is relatively easy and straightforward when compared to what a de novo credit union will face once it is chartered and operating. All of these factors contribute to a significant decline in the pace of de novo credit unions post financial crisis.



A new charter is considered as one with at least one filed call report

Source: NAFCU analysis of NCUA call report data

The chart above outlines the number of de novo federally insured credit unions chartered since the year 2000.

The NCUA takes an active role in helping new credit unions form and provides support. NAFCU appreciates the NCUA's strategic focus on easing barriers to the formation of new credit unions, including streamlining the chartering process, offering assistance to groups attempting to establish a new credit union in earlier stages, and providing newly formed credit unions with additional flexibility in meeting regulatory requirements.

Still, the NCUA's abilities are limited by what is allowed under statute. NAFCU urges Congress to modernize the FCU Act to promote the chartering of de novo credit unions and to provide greater flexibility regarding prompt corrective action capital requirements for de novo credit unions. Although the FCU Act gives the NCUA the authority to offer some prompt corrective action flexibility for new credit unions, expanding the agency's authority would be helpful.

Subordinated Debt

Congress may provide more flexibility to credit unions' ability to serve low- and moderate-income individuals in their communities by supporting the NCUA in its efforts to permit credit unions to issue subordinated debt. Currently, low-income credit unions are able to offer a form of subordinated debt called secondary capital. Low-income credit unions may issue secondary capital accounts to non-natural persons and these accounts are generally treated as regulatory capital. The approval process to offer secondary capital can, however, be complex. NAFCU appreciates the NCUA's recent supervisory guidance pertaining to the evaluation of secondary capital plans, as it provides valuable insight into why a secondary capital plan may be denied. Nonetheless, NAFCU continues to urge the agency to provide further support and guidance to low-income credit unions so they can better utilize this important resource.

NAFCU advocates for a more streamlined process for the approval of secondary capital applications. Although every secondary capital plan is necessarily different depending on the credit union in question, the process should be more standardized to help credit unions anticipate and better prepare their secondary capital plans for approval. Additional flexibility, guidance, and other resources, particularly on how credit unions can more comprehensively project future performance over a reasonable time horizon would be helpful as many low-income credit unions continue to face obstacles in the approval process. Additionally, NAFCU supports improved

flexibility in credit unions' capital framework to enhance consistency across regions regarding the treatment of secondary capital as it applies to a credit union's net worth calculation. Taking the steps outline above, as well as supporting existing proposals such as S. 3441, the CDFI Bond Guarantee Program Improvement Act offered by Senators Tina Smith, D-MN, and Mike Rounds, R-SD, would go a long way to helping meet the needs of CDFIs and allowing us to meet the challenges that arise.

Conclusion

MDIs and CDFIs play a vital role in the daily lives for millions of Americans. Preserving MDI and CDFI credit unions and fostering the development of new ones would continue to grow the financial industry as an inclusive part of the American economy.

Credit unions throughout the country are proud of the work they have done to serve minority and underserved populations. We urge the Subcommittee to support improving the CDFI experience, including regulatory relief for credit unions and support for modernizing and updating the FCU Act. Allowing established credit unions to service the communities that need the most help and providing pragmatic regulatory relief for chartering new credit unions would bring more Americans into financial institutions that put their financial well-being over profits.

Thank you again, Chair Warnock, Ranking Member Tillis, and Members of the Subcommittee for the invitation to testify before you today. I welcome any questions you might have.

PREPARED STATEMENT OF JOEL GRIFFITH

RESEARCH FELLOW, FINANCIAL REGULATIONS, HERITAGE FOUNDATION, WASHINGTON, DC

FEBRUARY 9, 2022



CONGRESSIONAL TESTIMONY

The Role that Community Development Financial Institutions and Minority Depository
Institutions Serve in Supporting Communities

Testimony before

UNITED STATES SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN
AFFAIRS

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER PROTECTION

February 9, 2022

Joel Griffith
Research Fellow, Financial Regulations
The Heritage Foundation

Chair Warnock, Ranking Member Tillis, Members of the Senate Subcommittee on Financial Institutions and Consumer Protection. Thank you for the opportunity to testify on the role that community development financial institutions and minority depository institutions serve in supporting communities. My name is Joel Griffith. I am a Research Fellow in Financial Regulations at The Heritage Foundation. The views I express in this testimony are my own and should not be construed as representing any official position of The Heritage Foundation.

The Community Development Financial Institutions fund (CDFI) provides grants to community development financial institutions, community development entities, and other

private financial institutions. The CARES Act provided \$12 billion CDFIs and Minority Deposit Institutions, or MDIs. The \$3 billion to the Treasury CDFI fund is equal to a decade's worth of typical funding.

The CDFI all too often amounts to corporate welfare in the form of grants, bond guarantees, and tax credits. This favoritism hinders competition and distorts private markets—misallocating limited resources.¹ In addition, a lack of transparency results in lax accountability to taxpayers, misdirection of limited resources, and lost confidence in the fairness of our system.

¹ Justin Bogie, David R. Burton, and Norbert J. Michel, "2017 House Financial Services and General Government Bill: Reduces Spending, But Does Not Go

Far Enough on Policy Changes," Heritage Foundation *Issue Brief* No. 4591, July 7, 2016, <http://thf-reports.s3.amazonaws.com/2016/IB4591.pdf>

The 2021 Emergency Capital Investment Program (ECIP) Highlights Elevated Risk of CDFI Lending.

As the risk of default grew during the pandemic on loans made by CDFIs, Congress in March 2021 authorized the Treasury Department to invest up to \$9 billion in CDFIs. This would allow them to boost capital requirements and continue lending.² The extent of the demand for taxpayer assistance through the Emergency Capital Investment Program (ECIP) underscores the danger stemming from looser underwriting standards, government subsidization of the CDFI business model, and the lack of transparency.³

In October, the Treasury announced “204 credit unions, banks, and bank and savings and loan holding companies requested total investments of over \$12.88 billion under the Emergency Capital Investment Program (ECIP). This demand exceeds the amount available for investment by \$4.13 billion.”⁴ This suggests that distressed or non-performing loans threatened the operational capacity of more than 1/3 of the CDFI depositories.

²The Consolidated Appropriations Act of 2021 authorized \$9 billion of direct Treasury investment in CDFIs through the Emergency Capital Investment Program (ECIP). U.S. Department of the Treasury, “Emergency Capital Investment Program,” <https://home.treasury.gov/policy-issues/coronavirus/assistance-for-small-businesses/emergency-capital-investment-program> (accessed February 8, 2022).

³Due to the Home Mortgage Disclosure Act (HMDA) reporting threshold being lowered, data from CDFIs is likely to be even lower going forward. See Congressional Research Service, Report R36980, “Single-Family Mortgage Pricing and Primary Market Policy Issues,” December 2, 2021, <https://sgp.fas.org/crs/misc/R46980.pdf> (accessed February 8, 2022).

⁴U.S. Department of the Treasury, “Treasury Sees Robust Demand for Emergency Capital Investment,” October 18, 2021, [https://home.treasury.gov/system/files/136/ECIP-](https://home.treasury.gov/system/files/136/ECIP-Demand-Announcement-10-18-2021.pdf)

Another troubling component of the new government largesse is the State Small Business Credit Initiative (SSBCI).

The American Rescue Plan provided \$10 billion to re-start the State Small Business Credit Initiative (SSBCI).⁵ This State Small Business Credit Initiative (SSBCI) funds state programs that provide government loan guarantees and government loan purchases to favored entities-- based on company size and business sector. This partially replaces decisions over allocation of capital made by individuals and investors with the preferences and dictates of bureaucrats often for the benefit of the politically favored.

Numerous problems plagued this program in the past.⁶ For instance, the Treasury’s Office of Inspector General (OIG) identified noncompliant expenditures related to California’s SSBCI loans which “constitute a ‘reckless’ misuse of funds...”⁷ The OIG also identified “reckless misuse” of funds and “conflicts of interest” within the New York program related to one of the venture capital firms participating in the state’s SSBCI program.⁸

[Demand-Announcement-10-18-2021.pdf](https://home.treasury.gov/system/files/136/ECIP-Demand-Announcement-10-18-2021.pdf) (accessed February 8, 2022).

⁵U.S. Department of the Treasury, “Treasury Issues State Small Business Credit Initiative Program Implementation Guidance,” November 10, 2021, <https://home.treasury.gov/news/press-releases/jy0474> (accessed February 8, 2022).

⁶Congressional Research Service, “State Small Business Credit Initiative: Implementation and Funding Issues,” April 23, 2018, <https://www.everycrsreport.com/reports/R42581.html> (accessed February 8, 2022).

⁷U.S. Department of the Treasury, OIG, “Small Business Lending Fund: California Needs to Improve Its Oversight of Programs Participating in the State Small Business Credit Initiative,” May 24, 2012, p. 3, https://oig.treasury.gov/sites/oig/files/Audit_Reports_and_Testimonies/OIG-SBLF-12-003.pdf (accessed February 8, 2022).

⁸Congressional Research Service, “State Small Business Credit Initiative: Implementation and Funding

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These states were not alone. The OIG found only four states to be in full compliance with the program. Is this government-provided capital actually filling a funding need of small businesses not already met by the market? The data strongly suggest no. For instance, the \$1.5 billion in SSCBI funds in the Small Business Jobs Act of 2010 was expected to generate \$10.5 billion in new small business financing by state government lending programs. This is just a small fraction of the total value of the \$644.5 billion small business loans outstanding in 2019 (the most recent year available).⁹ Although marketed as a pandemic economic response, SSBCI funding is now available for years into the future. This operates as a slush fund for politicians across the nation—a purpose detached from combatting the economic fallout from the shutdowns.

Small Businesses are Being Served by the Credit Markets

It's a misnomer that credit markets are not providing funds to small businesses. Most small businesses are saying they are generally not looking for more credit.¹⁰ Only three percent of respondents in a January 2022 National Federation of Independent Business (NFIB) survey reported their borrowing needs were not satisfied. Only 1 percent reported financing as their top business problem. The survey also reported, "Only a net 2 percent reported their last loan was harder to get than in previous attempts (up 1 point)."¹¹ In past

economic crises, 37 percent have reported financing and interest rates as a top concern.

CDFIs are now leveraging their operations to fund investments with below market-rate debt in Opportunity Zones.¹²

Unfortunately, these types of targeted development programs fail to help those in need. In fact, they have a history of unintended consequences and corruption.¹³

Subsidies from Washington fail to address the underlying causes of concentrated poverty — causes such as lack of educational choice, restrictions on worker freedom, and onerous local regulation and mismanagement. The gleaming luxury apartment buildings, high-tech industrial parks, and designer shopping centers constructed in these zones generally serve individuals who are already thriving.

Place-based economic planning won't help those saddled with more complex institutional problems.

For example, workers without adequate skills will not suddenly be qualified for higher-paying jobs. Those with meager incomes will not suddenly be able to afford luxury housing.

Wide-ranging surveys conducted by federal, state and private researchers of targeted economic development programs find that

Issues," April 23, 2018, p. 41, <https://www.everysreport.com/reports/R42581.html> (accessed February 8, 2022).

⁹ U.S. Small Business Administration, Office of Advocacy, "Small Business Lending in the United States," September 2020.

<https://cdn.advocacy.sba.gov/wp-content/uploads/2020/09/10092920/Research-Summary-Small-Business-Lending-In-The-United-States-2019.pdf> (accessed February 8, 2022).

¹⁰ William C. Dunkelberg and Holly Wade, NFIB Small Business Economic Trends, NFIB Research Center, January 2022, <https://assets.nfib.com/nfibcom/SBET-Jan-2022-Final.pdf> (accessed February 8, 2022).

¹¹ Ibid.

¹² James Hargens, "Opportunity Zones Revisited: The Role of CDFIs in Driving Equitable OZ Impact," Summit, June 2, 2021, <https://www.summitllc.us/blog/opportunity-zones-revisited-the-role-of-cdfis-in-driving-equitable-oz-impact> (accessed February 8, 2022).

¹³ Joel Griffith and Adam Michel, "Opportunity Zones: Understanding Them in the Context of Past Place-Based Incentives," Heritage Foundation *Background* No. 3420, July 10, 2019, <https://www.heritage.org/sites/default/files/2019-07/BG3420.pdf>.

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these programs produce few positive results for the intended recipients. They often leave communities poorer than they started.

A series of studies find current residents of targeted areas don't see an increase in wages following the development aid, but they do experience rising rental costs. Higher living costs without higher wages result in a lower standard of living for the communities the politicians were trying to help. A congressional report found no "general improvement in the economic conditions of the locals."¹⁴

Analysis of six similar state programs shows subsidies attracted new businesses which proceeded to snuff out a similar number of existing competitors employing native residents. The net impact on the number of businesses was zero. In Maryland, manufacturing jobs declined faster in the incentive zones than in the rest of the state and did not benefit zone residents.

Moreover, these programs come at a huge cost to taxpayers – in many instances exceeding \$100,000 for each job created. And this sea of government money leads to corruption and graft. Directors of the Gary Indiana Urban Enterprise Association were charged with conspiracy, mail fraud, and federal program theft of nearly \$1 million. In Atlanta, targeted subsidies are connected to corruption and mismanagement, resulting in 82 percent of the programs achieving not one of their goals of helping poor communities.

Past place-based programs have relied upon complicated tax credits and direct subsidies with many government strings attached. These programs, by their very nature, can't resolve the complicated institutional barriers to economic opportunity.

In addition, because politicians are empowered to decide which neighborhoods win and lose, these programs tend to breed cronyism. Often, these decisions benefit politically connected developers and investors who have rigged the system in their favor. Unfortunately, CDFIs are using their sway to funnel more capital into these projects.

The Reality: Small Businesses are Being Serviced by the Credit Markets.

It's a misnomer that credit markets are not providing funds to small businesses. Most small businesses are saying they are generally not looking for more credit.¹⁵ Only three percent of respondents in a January 2022 National Federation of Independent Business (NFIB) survey reported their borrowing needs were not satisfied. Only 1 percent reported financing as their top business problem. The survey also reported, "Only a net 2 percent reported their last loan was harder to get than in previous attempts (up 1 point)."¹⁶ In past economic crises, 37 percent have reported financing and interest rates as a top concern.

Conclusion

Broadly available tax cuts benefit all Americans, especially the most vulnerable, through a strong economy that generates demand for workers and raises their

¹⁴ See Joel Griffith and Adam Michel, "Opportunity Zones: Understanding Them in the Context of Past Place-Based Incentives," Heritage Foundation *Backgrounder* No. 3420, July 10, 2019, <https://www.heritage.org/sites/default/files/2019-07/BG3420.pdf>.

¹⁵ William C. Dunkelberg and Holly Wade, NFIB Small Business Economic Trends, NFIB Research Center, January 2022, <https://assets.nfib.com/nfibcom/SBET-Jan-2022-Final.pdf> (accessed February 8, 2022).

¹⁶ *Ibid.*

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wages through productivity gains. Institutional and local reforms are needed to enable residents of impoverished communities to seize the opportunities created by a strong national economy.

State and local governments share a responsibility to eliminate artificial barriers to economic growth and affordable housing. Minimum wages, occupational licensing, and unreasonable zoning restrictions are three examples of policies to review. Regulations are costly to businesses and individuals, they lower real incomes, reduce entrepreneurship, exacerbate income inequality, and increase the price of consumer goods.¹⁷

Lastly, failing public schools contribute to a relative lack of education, marketable skills, and other forms of human capital. This directly impacts earnings capacity. To better equip the next generation to prosper, parents should be enabled to select educational alternatives for their children. Many of the underperforming public schools are located in economically deprived areas with a disproportionately large

minority population.¹⁸ Elevated numbers of students drop out before graduation; many graduates lack proficiency in basic reading, writing, math and specialized skills.¹⁹

The government granted education monopoly fails millions of students who are subsequently unable to effectively compete in the labor market. Education choice options that allow students and parents to choose the best school for them, have been shown to help the poorest students attain better outcomes over government assigned schools.²⁰ Over time, the opportunity gap between minorities and the rest of the nation will close due to enhanced educational quality. This will translate into greater income and wealth accumulation.

In contrast to these specific policies, more government “investment” in CDFIs will fail to yield consistent increases in employment, wages, or advances to general economic opportunity for those who have been left behind.

¹⁷ Dustin Chambers, Patrick A. McLaughlin, and Laura Stanley, “Regulation and Poverty: An Empirical Examination of the Relationship between the Incidence of Federal Regulation and the Occurrence of Poverty across the States,” *Mercatus Working Paper*, April 2018,

<https://www.mercatus.org/system/files/chambers-regulation-poverty-mercatus-working-paper-v1.pdf>.

¹⁸ Duncombe, Chris. “Unequal Opportunities: Fewer Resources, Worse Outcomes for Students in Schools with Concentrated Poverty,” *Commonwealth Institute*, October 26, 2017,

<https://www.thecommonwealthinstitute.org/2017/10/26/unequal-opportunities-fewer-resources-worse-outcomes-for-students-in-schools-with-concentrated-poverty/>.

¹⁹ *The Condition of Education 2018*, National Center for Education Statistics, U.S. Department of Education, 2018, p. 4,

https://nces.ed.gov/programs/coe/pdf/coe_cnb.pdf.

²⁰ Jason Bedrick and Lindsey M. Burke, “The Next Step in School Choice,” *National Affairs*, Winter 2015, <https://www.nationalaffairs.com/publications/detail/the-next-step-in-school-choice>.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR TILLIS
FROM ROBERT JAMES II**

Q.1. I appreciated your participation in the February 9, 2022, Subcommittee hearing. As we discussed during the hearing, a common refrain by those concerned by CDFIs is the lack of concrete data that can be used to analysis and vet their efficacy. Specifically, the Carsey Institute at the University of New Hampshire, which issued a report on CDFIs at the behest of the CDFI Fund, notes, “In developing this report, the research team encountered significant data limitations at every turn” and identifies “inadequate data and non-standardized auditing practices” as significant barriers to CDFIs achieving better capitalization.

Can you speak to the current data limitations you believe exist in the CDFI structure and their data reporting requirements?

A.1. Senator, while we would agree that there are limitations on how the data provided to the Fund is standardized and utilized the NBA does not agree that there is a lack of sufficient data provided on the operation of CDFIs. Much of the limitations on standardizing the data is due to the wide array of institutions that are certified as CDFI (loan funds, credit unions, MDIs, nonprofits, etc.) In many instances, the only common thread amongst these different types of CDFIs is their mission-driven mandate. We believe it is critically important to take this into consideration when examining the data available on the operation of individual or classes of CDFIs from a capitalization perspective.

CDFIs as a whole provide extensive data, often at great expense, on an annual basis to the Community Development Financial Institutions Fund (CDFI Fund) as part of their certification requirements and prudential regulator as a part of their Community Reinvestment Act (CRA) reporting obligations. There is significant overlap in the data provided to each respective entity and in our view is sufficient to provide insight into the capital needs of these institutions. The CDFI Fund produces an annual certification and data collection report (ACR) which allows the Fund to gain insight on the CDFI industry. Certified CDFIs are required to submit ACRs on an annual basis through the CDFI Fund’s Awards Management Information System (AMIS). CDFIs are required to submit their ACR within 90 days of the end of their organization’s fiscal year. Failure to submit a required ACR may result in a loss of Certification status and additional sanctions for CDFIs that are award program recipients. This ACR report provides key summary data and comparisons by CDFI institution type (including banks/thrifts, credit unions, loan funds and venture capital funds).

The ACR is comprised of four main sections:

- Section 1: Organizational Information—collects organizational profile information, line(s) of business, governance structure, and details related to the seven requirements for Certification.
- Section 2: Financial Data Detail—collects information and data related to a Certified CDFI’s assets, liabilities, income, expenses, and loan and investment portfolio.
- Section 3: Financial Products Portfolio Breakdown Detail—collects specific data related to Financial Products, types and

subtypes of loans and investments, as well as detailed Target Market activity.

- Section 4: Development Services Detail—collects information on Development Services provided by a Certified CDFI, including clients served and Development Services provided in Target Markets.

These annual data reports provide evidence of how CDFIs are providing Financial Products and Development Services to distressed communities and underserved populations while maintaining safety and soundness. Below is a snapshot from the 2020 ACR report from the CDFI Fund.

Loan funds constitute the largest share of Certified CDFIs.

Certified CDFIs are located in all 50 States as well as several U.S. territories.

Loans are the dominant Financial Product (in contrast to equity investments and loan guarantees) offered by Certified CDFIs by dollar amount and count.

Consumer financing is the most reported type of financing provided in both count and dollar amount.

Financial education is the most popular Development Service used by clients of Certified CDFIs.

Certified CDFI credit unions report the highest total assets amount and the most financing capital available.

Q.2. The authors of the Carsey report go on to say, “. . . it is currently simply impossible to make the most routine analyses that are normally conducted with other classes of loan assets. It is not possible, for example, to create a breakdown of default rates or prepayment speeds for a given class of CDFI loans, or even to provide a breakdown of borrower credit scores. What is ironic about this is that CDFI managers feel they are swamped with reporting requirements, which they routinely fulfill. It is difficult to reconcile how CDFIs can be doing so much reporting yet have so little to show for it.”

I believe we must reconcile the lack of actionable data from CDFIs with the feedback that CDFI managers feeling “swamped with reporting requirements.”

What areas of CDFI reporting requirements should policymakers look at to broaden pertinent data sets?

Likewise, what areas would be helpful for policymakers to streamline to ease burdens?

A.2. Senator as noted previously we believe our member institutions as a class of CDFI provides significant data on the financial products we offer to the communities that we serve. I will speak for that class, MDIs, with regards to your very important question. The NBA strongly support the purposes and objectives of CRA, but we believe it is long overdue for an overhaul that recognizes the differences between the types of institutions that are subject to it. Enacted 40 years ago, CRA has been instrumental in ensuring LMI communities have access to credit and financial services, but the last significant regulatory overhaul of CRA occurred two decades ago. In that time, the financial services industry has radically changed but, CRA has not. We strongly support modernization that ensures CRA does not lose effectiveness for LMI communities and

that also creates a regulatory framework that streamlines financial institutions' ability to comply with the CRA. The success of CRA reform effort should be measured by whether it will result in more credit and services delivered to LMI communities that doesn't create unnecessary regulatory burdens on the financial institutions that best serve these communities.

Federal regulators and Congress have recognized that MDIs play an important role in addressing the need for financial services in minority communities. Regulators have been charged by Congress to regulate in a way to promote and sustain MDIs. This is done as a way to help remedy past practices by the banking industry and the Federal Government that have made it more difficult for minorities to achieve financial success. Yet CRA rules as currently written are applied in a way that puts MDIs at a disadvantage compared to mainstream banks. We have consistently provided feedback on modernizing the CRA, but unfortunately this has taken place after proposals have already been released by regulators. In this instance we are glad to provide you our view ahead of the proposed rules in an effort to have those changes reflect the reality all of our member institutions face while serving our communities.

As previously noted, the vast majority of the Association's member institutions are also CDFIs requiring that they annually certify that no less than 60 percent of their lending activity occurs in LMI communities. In many instances, the work that the Association's member institutions do to retain their CDFI certification would either be sufficient for meeting their CRA obligations or includes activities that should largely be CRA qualifying activity. Unfortunately, there is no reciprocity between the CDFI certification, data collection, reporting, and recordkeeping process and what is required for CRA examinations despite clear overlap in objectives and qualifying activity regarding both the CRA and the requirements for CDFI certification. We believe that regulators should use this new proposed rule as an opportunity to change this dynamic.

Many of our smallest member institutions that are CDFIs expend staff and financial resources to comply with competing regimes that should otherwise be aligned. The proposed regulations do not provide accommodations for CDFIs that would streamline their CRA obligations or that allows CDFIs to enjoy a rebuttable presumption of CRA compliance (at least a "Satisfactory" rating). We believe that the proposed regulations in the past consistently missed the opportunity to eliminate—or at least reduce—the regulatory burdens that mission-driven lenders face and to harmonize what should be complementary regulatory regimes. Specifically, we would recommend considering the following accommodations for MDIs in meeting their CRA obligations:

MDIs should be able to submit their Annual Certification and Data Collection Report Form and be deemed in compliance with both the existing CRA reporting, data collection, and reporting requirements as well as the newly proposed requirements; and

Deemed compliance shall constitute an "Outstanding Rating" given the kinds of investments and the scale of investments (60 percent of a CDFI's financing activities must occur in LMI areas) necessary to obtain and maintain CDFI certification.

While we hope regulators will exempt MDIs from the current CRA regime based on their mission and CDFI compliance, if that is not possible, we hope the following recommendations are considered in the base text of any new proposed rule. First, providing clarity around the description of CRA qualifying activity regarding MDIs. We recommend modifying the current language to include “capital investment, deposits, loans, all loan participations, other financial and nonfinancial support, or other ventures undertaken.” We believe this will eliminate any ambiguity with examiners that the full range of non-MDI bank support to MDIs is always CRA qualified activity.

In addition to the support our institutions receive from non-MDIs, we believe the CRA should encourage MDIs to invest in themselves. The CRA regulations should not impose more stringent qualification criteria on MDIs than it does on other banks. Something that is CRA qualifying at a mainstream bank should also be CRA qualifying at an MDI. If a mainstream bank invests some of its earnings and capital in an MDI instead of paying it as dividend to shareholders, it receives CRA credit. But if an MDI retains some of its earnings and invests in itself instead of paying that portion of earnings as a dividend to shareholders, it does not receive credit. Similarly, a mainstream bank can get CRA credit for buying or selling participation interests in loans to or from MDIs. But MDIs routinely buy and sell loan participations among one another in order to increase our lending and reduce risk, but MDI banks do not get CRA credit for this. The reason that has been given is that this is business as usual for an MDI and not a CRA initiative. But should a bank not get CRA credit for building CRA goals into its core business model and only get credit if, as with mainstream banks, it is something only done through the CRA Department of the bank.

Another example of MDI status being disregarded under the current CRA rules is that an outreach program by a large mainstream bank to a particular ethnic group may receive CRA credit, but a program by a minority bank aimed at the same ethnic group might not receive positive mention because it is viewed as part of their business as usual and not part of their specific CRA program. We do not believe these results are mandated by the current CRA law or rules but that is how they are often implemented. An MDI, where CRA is business as usual, should get the same CRA credit for the same activities as a mainstream bank where the activity is done through the CRA Department.

Second, we feel it is important for the CRA to provide for a multiplier for capital investments in MDIs—irrespective of an MDI’s location. The soon to be withdrawn rule addresses this issue with respect to the kinds of activity that potentially warrant CRA multipliers to encourage banks to engage in certain types of activity and we hope this language is included in the revamped rule. The Association takes the position that our institutions over-index in the impact that our activity has in meeting the credit needs of LMI and/or communities of color. And, like many minority-owned businesses, our member institutions often encounter significant barriers to raising capital due in part to the mission-oriented lending our banks tend to engage in. The Act has long provided for CRA

credit for capital investments in MDIs, but the instances where institutions have taken advantage of this provision to make capital investments in MDIs has been sporadic at best. To that end, we believe that a multiplier for capital investments in MDIs above a specified minimum threshold sends the appropriate signal to the potential bank investors, and it would directly support the community development work that CRA seeks to encourage and that MDIs already engage in. We also recommend that capital investments in MDIs always be CRA-eligible multiplier effect activity even if an MDI is not in the CRA assessment area of the institution making the capital investment. This reflects the limited geographic reach of many MDIs, and if adopted, would maximize the potential opportunities for CRA-qualified capital investment in MDIs. Finally, any final rule should vary the multiplier across qualifying activity with an MDI such that capital investments receive the highest multiplier.

We strongly believe these long overdue changes will lead to a much more robust MDI sector and allow regulators to adhere more closely with their charge of to regulate in a way to promote and sustain MDIs.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR TILLIS
FROM JEANNE KUCEY**

Q.1. I appreciated your participation in the February 9, 2022, Subcommittee hearing. As we discussed during the hearing, a common refrain by those concerned by CDFIs is the lack of concrete data that can be used to analysis and vet their efficacy. Specifically, the Carsey Institute at the University of New Hampshire, which issued a report on CDFIs at the behest of the CDFI Fund, notes, “In developing this report, the research team encountered significant data limitations at every turn” and identifies “inadequate data and nonstandardized auditing practices” as significant barriers to CDFIs achieving better capitalization.

Can you speak to the current data limitations you believe exist in the CDFI structure and their data reporting requirements?

A.1. Many CDFIs are smaller financial institutions where increased data collection could become a significant burden, which could present increased costs and hinder the mission of the Fund to help communities in need. We believe the Fund should recognize the role of mission-driven regulated financial institutions, such as credit unions, that are already heavily regulated and supervised and/or examined by a Federal regulator, as compared to other entities that participate in the CDFI program and are certified by the Fund. Credit unions are subject to regulatory audit requirements and must maintain comprehensive financial statements. Expanded data reporting should only serve as a way for the Fund to oversee these other entities that may not be regulated elsewhere by the Federal Government.

Q.2. The authors of the Carsey report go on to say, “. . . it is currently simply impossible to make the most routine analyses that are normally conducted with other classes of loan assets. It is not possible, for example, to create a breakdown of default rates or prepayment speeds for a given class of CDFI loans, or even to provide

a breakdown of borrower credit scores. What is ironic about this is that CDFI managers feel they are swamped with reporting requirements, which they routinely fulfill. It is difficult to reconcile how CDFIs can be doing so much reporting yet have so little to show for it.”

I believe we must reconcile the lack of actionable data from CDFIs with the feedback that CDFI managers feeling “swamped with reporting requirements.”

What areas of CDFI reporting requirements should policymakers look at to broaden pertinent data sets?

A.2. I appreciate the Committee’s effort to improve the data regarding lending done by CDFI’s. We all want to ensure that taxpayer dollars are used efficiently and properly. I think that the best answer to your question about CDFI’s and their reporting burdens is to look at the totality of reporting required for small institutions like mine. Many CDFI’s are very small financial institutions, with limited staff. Small insured depository CDFIs are still subject to the whole array of reporting requirements for a depository institution, including HMDA, SARs, CTRs, and many more. These requirements all carry with them liability for penalties from the regulators for mistakes and errors. At a smaller institution, like many CDFI credit unions are, these reports are often filled out by just one or two people. Adding on yet another report would be another burden to bear. So, while I support the goal of having good information, when I look at the potential burden of layering on yet another reporting requirement for being a CDFI for my credit union, I have to question whether we could take on yet another regulatory reporting requirement. Every dollar spent on regulatory reporting requirements is one less dollar available to serve our members.

Q.3. Likewise, what areas would be helpful for policymakers to streamline to ease burdens?

A.3. We believe measures such as the National Credit Union Administration’s (NCUA) streamlined application for CDFI certification must be maintained. Currently, smaller, low-income designated credit unions can use a streamlined application process, which is helpful for these smaller and MDI credit unions as it reduces the burdens associated with the certification application. Unfortunately, the Fund has announced that new requirements for transaction level data that will go into effect in 2023, which will lead the NCUA to phase out this streamlined process as they do not have that data to assist credit unions with the application. This is an example of how more data (from an already heavily regulated entity) may provide little additional benefit, but could actually hurt the overall program mission as it drives smaller institutions out of the program due to increased costs and burdens.

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

LETTER SUBMITTED BY CIRCLE INTERNET FINANCIAL LLC

February 9, 2022

The Honorable Raphael Warnock
Chairman
Senate Banking Subcommittee on
Financial Institutions and Consumer Protection
338 Russell Senate Office Building
Washington, DC 20510

The Honorable Thom Tillis
Ranking Member
Senate Banking Subcommittee on
Financial Institutions and Consumer Protection
113 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Warnock and Ranking Member Tillis,

Thank you for holding this important hearing titled, "The Role that Community Development Financial Institutions and Minority Depository Institutions Serve in Supporting Communities." Circle appreciates the opportunity to share our views with the subcommittee and respectfully submits this letter for the record.

Circle was founded in 2013 on the principle that public blockchains and digital currency will make the global economic system more open, inclusive and efficient for people everywhere. Eight years later, Circle has become the leading digital financial services firm and the sole issuer of USD Coin, or USDC - a regulated, dollar digital currency supporting the extensibility of the U.S. Dollar in a competitive, always-on global economy.

As the committee explores the unique challenges and opportunities facing Minority Depository Institutions (MDIs) and Community Development Financial Institutions (CDFIs), please be aware that Circle recently announced an initiative called [Circle Impact](#) seeking to support and partner with MDIs and CDFIs.

Circle is committing to allocating a share of USDC dollar reserves to MDIs and community banks across the country. We hope this will accrue to billions of dollars over time, strengthening the balance sheet of these banks and, thereby, strengthening their communities. We are in the process of identifying MDIs and community banks that would benefit from holding USDC reserves and expect to announce the first allocation of reserves to these institutions in Q1 2022. Our criteria is simple: What communities would benefit from these reserves and what institutions would welcome additional reserves?

As a policy matter, one of the obstacles that precludes expanding this program are existing policies or market perceptions that hinder U.S. banks from providing services, including custodianship of assets, to the growing crypto and digital assets industry.

We will continue to update the Senate Banking Committee on the *Circle Impact* initiative in the days and years ahead.

Sincerely,



Dante Disparte
Chief Strategy Officer and Head of Global Policy
Circle

cc: Chairman Brown
Ranking Member Toomey

Circle Internet Financial LLC circle.com

STATEMENT SUBMITTED BY ICBA



The Independent Community Bankers of America, representing community banks across the nation with nearly 50,000 locations, appreciates the opportunity to provide this statement for the record for today's hearing titled: "The Role that Community Development Financial Institutions and Minority Depository Institutions Serve in Supporting Communities."

Community bankers are committed to serving their communities, including unbanked populations. A community cannot thrive without inclusive access to the banking system. When a significant population remains outside the banking system, predatory practices flourish. These include high-cost payday loans and car title loans that can trap borrowers in a cycle of debt. Without broadly available bank credit, homeownership rates decline. It becomes harder to build wealth, and the racial and ethnic wealth gap widens. Exclusion from the banking system promotes an underground cash economy. Unbanked individuals who carry cash on their person or keep it in their homes are vulnerable to violent crime. The issue of the unbanked is a significant hurdle to full prosperity.

Minority Depository Institutions and Community Development Financial Institutions

Minority Depository Institutions (MDIs) and Community Development Financial Institutions (CDFIs) specialize in serving minority and low-income communities that are disproportionately unbanked. Without the work of these institutions, the unbanked population would be markedly higher. There are currently 146 MDIs holding over \$321.8 billion in assets touching 600 minority-majority communities nationwide. There are 300 CDFI banks, primarily serving low-to-moderate income markets and maintaining accountability to those target markets. Their impact in the communities they serve is significant and must be leveraged for greater reach.

Minority banks are effective in serving their communities because of their understanding of their cultural practices, differences, languages, and norms, allowing them to customize products and services that meet their unique needs. Critically, reaching the unbanked requires the ability to overcome barriers to trust. Trust and cultural understanding are the core value propositions such institutions offer.

Initiatives to Promote and Strengthen CDFIs and MDIs

Congress should enact legislation to promote and strengthen MDIs and support their reach into underserved communities. Measures could include permitting MDIs to utilize nontraditional means of raising capital to support additional lending. MDIs typically lack access to the public capital markets that larger banks enjoy.

Ensure the Emergency Capital Investment Program Fulfills its Potential

The Consolidated Appropriations Act of 2021 created the Emergency Capital Investment Program (ECIP) to revitalize and provide long-term financial products and services in low- and moderate-income and minority communities that have disproportionately suffered from the impacts of the COVID-19 pandemic. ICBA thanks Congress for the adoption of this program, which authorized the Secretary of the Treasury to provide capital investments in MDIs and CDFIs by purchasing senior preferred stock or subordinated debt issued by the eligible institutions.



Unfortunately, regulatory capital rules issued by the banking agencies provide that while preferred stock qualifies as tier 1 capital, subordinated debt qualifies as tier 2 capital.

ICBA is concerned that regulatory capital treatment of subordinated debt as tier 2 capital will greatly diminish the Program's potential. This will reduce the impact that Congress envisioned for the Program, especially considering that subordinated debt is the only instrument available under this Program for as many as 75 MDIs and CDFIs that are either mutual banking organizations or banks operating as S-corporations. Categorizing subordinated debt as tier 2 capital could result in billions of dollars not being as fully leveraged as it could be, or worse yet, leaving significant sums of money unused.

We thank Senator Warner for his recent letter to Federal Reserve Board Chairman Jerome Powell requesting that he provide clarity on the capital treatment of these funds for CDFIs and MDIs organized as Subchapter S corporations or mutuals.

New Programs

In addition to capital, Congress and the federal banking agencies should create programs to promote investments, technical assistance, mentorship, and collaborative relationships between minority banks and community banks at large. These provisions were included in House legislation, the Ensuring Diversity in Community Banking Act (H.R. 5322). In particular, that bill would create a new "Impact Designation" for banks with a specified percentage of loans extended to low-income borrowers would ensure that assistance is directed to those institutions that are having the greatest impact in low-income communities. H.R. 5322 passed the House in 2020. We urge this committee to consider similar legislation.

ICBA also supports House legislation, the Promoting Access to Capital in Underbanked Communities Act of 2021 (H.R. 2561), which is intended to promote de novo community bank formation, including MDIs, by phasing in capital standards over three years. Start-up capital is often the greatest impediment to forming a new bank, and this provision would help spur the creation of new MDIs and Impact Banks. This kind of regulatory flexibility, recognizing the financing disparities of different types of banks, is critical to promoting the formation of additional, mission-driven banks positioned to serve unbanked and underbanked communities.

Additional measures to strengthen CDFIs include: Funding the CDFI Fund's Loan Loss Reserve Fund for small dollar loans and providing additional appropriations for the CDFI Fund to provide technical assistance to CDFIs. Policymakers should also streamline the application and recertification process for MDIs to receive the CDFI designation. This would not only provide the flexibility for these institutions to reach first-time customers, but also encourage the formation of de novo MDIs, increasing the number of private, community banks focused on serving financially underserved communities. MDIs and CDFIs must be a part of the solution to the challenge of the unbanked.

Financial technology

According to FDIC data, 49.5 percent of unbanked households and 83.2 percent of underbanked households have regular access to a smartphone, while 28.5 percent of unbanked households and 76.1 percent of underbanked households have regular access to the internet. Smartphone and internet access can and will continue to expand with the support of targeted policy initiatives. Younger people of all demographics are already predisposed to use mobile



banking and mobile payments, according to the Federal Reserve's most recent survey on Consumers and Mobile Financial Services.

Partnerships between CDFIs and MDIs and fintech providers are a critical part of ensuring greater access to financial services beyond the reach of physical branches. ICBA supports initiatives to expand affordable access to broadband and other technologies and promote the use of fintech as a means for unbanked and underbanked households to access banks with low-cost product offerings. Bank-fintech partnerships are an important feature of the financial landscape, and we must ensure that it expands in an inclusive and affordable manner.

Closing

Thank you for convening today's hearing. Expanding access to vital financial services in underserved communities is a policy priority for ICBA. We welcome this committee's support for CDFIs and MDIs and look forward to working with you on the initiatives discussed in this statement.

LETTER SUBMITTED BY CUNA



Jim Nussle
President & CEO

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99 M Street SE
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February 8, 2022

The Honorable Raphael Warnock
Chairman
Financial Institutions and Consumer Protection
Subcommittee
Committee on Banking, Housing, and Urban Affairs
United States Senate
Washington, DC 20510

The Honorable Thom Tillis
Ranking Member
Financial Institutions and Consumer Protection
Subcommittee
Committee on Banking, Housing, and Urban Affairs
United States Senate
Washington, DC 20510

Dear Chairman Warnock and Ranking Member Tillis:

On behalf of America's credit unions, I am writing regarding today's hearing, "The Role that Community Development Financial Institutions and Minority Depository Institutions Serve in Supporting Communities." The Credit Union National Association (CUNA) represents America's credit unions and their 130 million members.

Community Development Financial Institution Credit Unions

CUNA supports the Community Development Financial Institutions (CDFI) Fund and represents the interests of the 433 CDFI-certified credit unions in the United States. Nearly one in three CDFI-certified financial institutions and loan funds are credit unions. The mission of CDFI financial institutions is vital to reaching and meeting the financial services needs in traditionally underserved areas and populations in both rural and urban America. CDFI certification provides federal resources and creates a favorable regulatory environment to facilitate meeting the needs of these communities and providing accessible and affordable access to mainstream financial services such as credit products and checking accounts. Deposits at CDFI-certified credit unions are insured by the National Credit Union Share Insurance Fund, which administered by the National Credit Union Administration (NCUA).

The CDFI Fund was established in 1994 by the Riegle Community Development and Regulatory Improvement Act and is administered by the U.S. Treasury Department. It makes capital grants, equity investments and awards for technical assistance to community development financial institutions (CDFIs). Examples of CDFIs include community development banks, community development credit unions, community development loan and venture capital funds, and microenterprise loan funds. CDFIs are required to provide a 1:1 match for most of the awarded funds, which are offered on a competitive basis. CDFIs finance community development initiatives such as small businesses, community facilities, and low-income housing. The CDFI Fund also administers the New Markets Tax Credit program, which provides tax credits to Community Development Entities (CDEs) which in turn provide the tax credits to entities which invest in the CDEs.

CDFIs such as Community Development Credit Unions (CDCUs) are charged with supplying low-income, distressed communities with traditional banking services such as savings accounts and personal loans, and offering individuals the tools needed to become self-sufficient stakeholders in their own future. The CDFI Fund uses small amounts of federal dollars to leverage significant amounts of private and non-federal dollars, and has added a tremendous boost to the CDFI industry (which relies heavily upon private sector funds from corporations, individuals, religious institutions, and private foundations).

cuna.org

Community Development Credit Unions (CDCUs) grow local economies and serve the most economically distressed communities in the nation. Support for these institutions, as well as providing full funding for the CDFI Fund, are good investments by the federal government. Good paying jobs lead to more tax revenue and less dependence on the federal social safety net.

Minority Depository Institution Credit Unions

Credit unions recognize that financial inclusion and access to capital are critical to ensuring the survival of many of our nation's most vulnerable small businesses. As not-for-profit, consumer-owned financial cooperatives credit unions have a laser-focus on our mission of financial inclusion and serving our members. Minority Depository Institution (MDI) credit unions form an integral part of the credit union movement and enhance our ability to serve underserved groups.

As of September 30, 2021, there were 519 MDI credit unions (over three and a half times the number of MDI banks), representing 10 percent of all credit unions and serving 4.6 million members. This represents a growth of 700,000 members in just three years.

A Minority Depository Institution (MDI) credit union is a federally insured credit union in which a majority of its members, board of directors' members, and the community it serves, fall within any (or any combination) of the listed minority groups (*Black American, Asian American, Hispanic American, or Native American*) defined in Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

MDI credit unions have combined assets of nearly \$60 billion, with the average being approximately \$115 million in assets. By comparison, MDI credit unions reported total assets of \$40.5 billion at the end of 2019. Supporting and growing minority depository institution credit unions is important to the credit union mission of promoting greater financial inclusion by expanding access to affordable financial services.

Through the National Credit Union Administration's (NCUA) MDI Preservation Program, MDI credit unions can access grants and loans through the regulator-administered Community Development Revolving Loan Fund (CDRLF). For example, these grants fund MDI initiatives to help their individual members in the areas of rental, mortgage, and utility payment assistance; loan payment relief; and new products and services. These designated credit unions can also receive free technical assistance, guidance, and training from NCUA examiners.

The NCUA also began its MDI Mentoring Grants program in 2019, also funded through the CDRLF. These grants help small and low-income MDI credit unions establish mentoring relationships with larger and more experienced low-income credit unions. The mentor credit unions offer strategic planning advice as well as general operational advice and assistance.

Congressional Assistance to CDFI and MDI Credit Unions

One of the most important things that Congress could do to promote financial inclusion and help small businesses would be to ensure that federal law permits all federal credit unions to serve underserved areas. Under current law, only multiple common bond credit unions are eligible to add underserved areas to their field of membership. In addition, credit unions are also arbitrarily restricted in the amount of business lending that they can provide to 12.25 percent of assets. Lifting that cap would ensure small businesses would be able to access the capital they need.

CUNA strongly supports the Expanding Financial Access for Underserved Communities Act, which would allow all federal credit unions to add underserved areas to their field of membership and exempt business loans made by credit unions in low-income areas from the credit union member business lending cap. Furthermore, the legislation expands the definition of a low-income credit union to include any area that is more than 10 miles from the nearest branch of a financial institution.

Credit unions' field of membership restrictions and the member business lending cap shut out those that need access to mainstream financial services. This legislation takes a significant step forward in addressing financial inclusion for small businesses as well as all Americans. America's credit unions urge support for the Expanding Financial Access for Underserved Communities Act.

On behalf of America's credit unions and their 130 million members, thank you again for holding this important hearing and considering measures to preserve and expand CDFI and MDI credit unions.

Sincerely,



Jim Nasse
President & CEO