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

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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 healthcare, 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 discrimination 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% of African Americans in Baltimore live within one mile of a Toxic Release Industry, and 70% percent of African Americans live within two to four 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.

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

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 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 front-line 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.