EXAMINING THE ROLE OF COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS AND MINORITY DEPOSITORY INSTITUTIONS IN SMALL BUSINESS LENDING

HEARING

BEFORE THE

SUBCOMMITTEE ON ECONOMIC GROWTH, TAX, AND CAPITAL ACCESS

OF THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES
HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTEENTH CONGRESS

FIRST SESSION

HEARING HELD
MAY 18, 2021

Small Business Committee Document Number 117–013
Available via the GPO Website: www.govinfo.gov

U.S. GOVERNMENT PUBLISHING OFFICE
44–565 WASHINGTON : 2021

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EXAMINING THE ROLE OF COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS AND MINORITY DEPOSITORY INSTITUTIONS IN SMALL BUSINESS LENDING

TUESDAY, MAY 18, 2021

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
SUBCOMMITTEE ON ECONOMIC GROWTH,
TAX, AND CAPITAL ACCESS,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:00 a.m., in Room 2360, Rayburn House Office Building and via Zoom, Hon. Sharice Davids [chairwoman of the Subcommittee] presiding.

Present: Representatives Davids, Newman, Chu, Evans, Mr. Kim, Bourdeaux, Meuser, Van Duyne, and Donalds.

Also Present: Representative Luetkemeyer.

Chairwoman DAVIDS. Good morning, everyone. I call this hearing to order.

Without objection, the Chair is authorized to declare a recess at any time.

Let me begin by saying that standing House and Committee rules and practice will continue to apply during hybrid proceedings. All Members are reminded that they are expected to adhere to these standing rules including decorum.

House regulations require Members to be visible through a video connection throughout the proceeding, so please keep your cameras on. Also, please remember to remain muted until you are recognized to minimize the background noise. If you participate in another proceeding, please exit this one and log back in later.

In the event a Member encounters technical issues that prevent them from being recognized for their questioning, I will move to the next available Member of the same party and I will recognize that Member at the next appropriate time slot provided they have returned to the proceeding.

For those Members physically present in the Committee room today, we will continue to wear masks and socially distance while the Chairwoman and Ranking Member work with the office of the attending physician on updated guidelines and procedures. Members and staff are expected to wear masks while in the hearing. With that said, Members will be allowed to briefly remove their masks when recognized by the Chair for statement and questions. I know we all look forward to returning to normal but appreciate everyone's patience while we prioritize the health and safety of our staff and each other.

Access to capital is the lifeblood of American small business. When small firms obtain adequate funding, they can grow their business, create jobs, and bolster the overall economy. Unfortunately, accessing capital is the single greatest challenge facing most entrepreneurs. This is especially true for the underserved groups like women, minorities, and folk who do not have the same opportunities to access funding as their peers.

Businesses owned by women and people of color who obtain loans often receive less money and pay higher interest rates. Fortunately, there are institutions working to close this lending gap. Community development financial institutions (CDFI) and minority depository institutions (MDI) operate to get money to entrepreneurs traditionally ignored by big banks. CDFIs provide a range of financial products and services on a fair and transparent basis in economically distressed markets such as mortgage financing, flexible underwriting, and loans and investments to small businesses in low-income areas.

MDIs are depository institutions where 51 percent or more of the stock is owned by minority individuals, including Black Americans, Asian Americans, Hispanic Americans, and Native Americans. As of December 31, 2020, there are 142 MDIs ensured by the FDIC. MDIs better serve borrowers who live in low and moderate income or LMI census tracts.

Over the past year, we have seen a wealth of evidence showcasing the power of these institutions in reaching undeserved groups. The pandemic highlighted and exacerbated the deep inequalities present in the small business sector. In 2020, Black, Latino, and Asian Americans experienced drops in business ownership rates much higher than their White peers. These same groups also had less access to federal relief programs, like the Paycheck Protection Program (PPP) due to their lack of an account with a big bank.

Recognizing this inequality in capital access, I and other Members of this Committee worked to empower CDFIs and MDIs to get emergency relief to these communities. We passed set-asides and multiple bills to appropriate funds so that community lending institutions, including CDFIs, could participate in the PPP on an equal footing with other lenders. We crafted these set-asides to maximize PPP lending in traditionally underserved business communities and we found that they were effective.

During the COVID-19 pandemic, small businesses reported the greatest levels of satisfaction with CDFIs and small banks. SBA's data also shows that CDFIs were best able to reach underserved small businesses. CDFIs were the only type of lender that performed above program average when it came to the percentage of loans less than $150,000. The percentage of loans made in low or moderate income areas and the percent of loans made in rural areas. The pandemic taught us a critical lesson in the power of community financial institutions, to reach communities that other lenders neglect.

Moving forward, we must examine the SBA's programs that empower CDFIs and MDIs to find ways to improve them. For example, efforts like the Community Advantage Loan Program, the 504 or CDC Loan Guaranty Program, the Microloan Program has also proven effective in helping CDFIs and MDIs get capital to underserved communities.

Today, I would like us to look at what programmatic changes can be made and what legislation we can pass to help improve the ability of these mission-based lenders to reach their target markets. As this Congress and the administration work toward achieving an equitable recovery for everyone, we must fully harness CDFIs and MDIs to reach this goal.

I will now yield to the Ranking Member for his opening statement.

Mr. MEUSER. Well, I thank you, Madam Chair. Good morning to all. And I thank you for holding this important hearing to explore the topic of access to capital for small businesses and how community financial development institutions and minority depository institutions assist the nation's underserved small businesses. Access to capital is a true driver of whether a small business start-up or entrepreneur can sustain business operations. The ability to obtain capital can be the difference between expanding and ceasing operations.

Unfortunately, when restrictions and shutdown measures were mandated on small businesses by state and local governments to prevent the COVID-19 from spreading, traditional financing options quickly became even more limited. Instantly, small businesses were faced with very devastating challenges. As a response, Congress created numerous relief programs focused on providing capital to small businesses and their employees.

To create efficiencies and develop capital in a swift manner, the Paycheck Protection Program replicated the strong private lender model used within the SBA's 7(a) Loan Program. Private sector lenders responded quickly and assisted small businesses through the emergency period and a total of over 5,000 private sector lenders participated in the PPP.

To reach underserved businesses in urban and rural areas, including minority-owned businesses, CDFIs and MDIs were welcomed into the program as well. Beyond acting as important lenders and intermediaries, CDFIs and MDIs were categorized as community financial lenders and were on the frontlines assisting small businesses throughout the pandemic. From when the program opened in April 2020 through the conclusion of the first round in August 2020, over 114,000 PPP loans were made by 308 CDFIs for a total of $7.5 billion. Quite a bit. Likewise, approximately 175 MDIs played an important role in PPP during the same time period by making 123,000 PPP loans for $10 billion.

Fast-forward to today, and CDFIs and MDIs are still actively participating in the PPP program. Aside from providing critical access to capital, CDFIs and MDIs were answering questions, providing technical assistance, and responding to the needs of the nation's smallest firms and organizations and they were quite active in Pennsylvania, which was very appreciated. I would also like to thank all the lenders that participated in PPP, including the nation's CDFIs and MDIs for assisting small businesses through these somewhat dark days.

But more work needs to be done. It is important for Congress to examine the role these lenders had over the last year. Moreover, Members of Congress must also examine the relief options used during COVID-19 to measure programs' efficiencies and overall effectiveness. Hearings like this one will help guide us as we explore numerous capital access issues, including the most efficient ways to deliver credit to small businesses. We learned a lot during this emergency period. We should use this information to continue to refine and sharpen all of the existing traditional tools available within the federal government.

I would like to thank all the witnesses for joining us today. I look forward to the conversation.

Madam Chair, thank you for calling his hearing and I yield back.

Chairwoman DAVIDS. Thank you. The gentleman yields back.

I would like to take a moment to explain how the hearing will proceed. Each witness will have 5 minutes to provide a statement and each Committee Member will have 5 minutes for questions. Please ensure that your microphone is on when you begin speaking and that you return to mute when you are finished.

With that, I would like to introduce all of our witnesses.

Our first witness is Ms. Aissatou Barry-Fall, the President and CEO of the Lower East Side People's Federal Credit Union. A leader in the community development credit union movement and one of the earliest institutions to obtain CDFI certification from the Treasury. Since its founding, they have provided vital financial services and community development investments in low-income, immigrant, and underserved communities in New York City. Ms. Barry-Fall began her career as a teller almost 30 years ago. Welcome, Ms. Barry-Fall.

Our second witness is Mr. Everett Sands. Mr. Sands is the Founder and CEO of Lendistry, a minority-led and technology-enabled small business lender with CDFI certification and one of the largest lenders in SBA's Community Advantage Program. Lendistry is also a Member of the Responsible Business Lending Coalition, a leading advocacy group for transparency and fairness in the lending process. He has over 20 years in national community banking and began his career working at two MDIs. Welcome, Mr. Sands.

Our third witness is Mr. Robert James II. Mr. James is the President of Carver Development CDE, an affiliate of Carver State Bank in Savannah, Georgia, one of the oldest Black-owned banks in the United States. He is also the Chairman of the National Bankers Association, the leading trade organization for the country's minority depository institutions. An attorney by trade, he has spearheaded numerous initiatives to bring private and public investments to underserved communities. Welcome, Mr. James.

I would now like to yield to our Ranking Member, Mr. Meuser, to introduce our final witness.

Mr. MEUSER. Thank you, Madam Chair.

Our next witness, Walter Davis. Mr. Davis is the Founding Member of Peachtree Providence Partners Holding Company with locations in Charlotte, North Carolina and Atlanta, Georgia. Peachtree Providence Partners was formed in 2014 and specializes in advisory and consulting services, as well as financial solutions. Prior to forming Peachtree Providence Partners, Mr. Davis was Vice Chairman, Chief Executive Officer, and Founder of CertusBank, and before that he was managing partner of Integrated Capital Strategies. Mr. Davis has also held executive level roles with Wachovia Corporation which is now Wells Fargo and Bank of America. Along with numerous board, trustee, and academic positions, Mr. Davis is an advisor on opportunity zones and was Chair of Vice President Pence's Economic Inclusion Task Force. Mr. Davis has a degree from the University of South Carolina and the University of North Carolina Chapel Hill. Mr. Davis, I would like to welcome you to the Subcommittee today and I am looking forward, we all are, to your thoughts and ideas.

Thank you to all of the witnesses for joining us, and I yield back.

Chairwoman DAVIDS. Thank you for doing that introduction.

Ms. Barry-Fall, you are now recognized for 5 minutes.

I believe you might be muted still.

STATEMENTS OF AISSATOU BARRY-FALL, PRESIDENT & CEO, LOWER EAST SIDE PEOPLE'S FEDERAL CREDIT UNION; EVERETT SANDS, FOUNDER & CEO, LENDISTRY; ROBERT JAMES II, PRESIDENT, CARVER DEVELOPMENT CDE, CHAIRMAN, NATIONAL BANKERS ASSOCIATION; WALTER L. DAVIS, FOUNDER, PEACHTREE PROVIDENCE PARTNERS HOLDING COMPANY

STATEMENT OF AISSATOU BARRY-FALL

Ms. BARRY-FALL. Can you hear me now?

Chairwoman DAVIDS. There we go.

Ms. BARRY-FALL. Thank you.

Chairwoman Davids, Ranking Member Meuser, and Members of the Subcommittee, thank you for inviting me to testify at today's hearing.

I am the CEO of the Lower East Side People's Federal Credit Union, a not-for-profit community development financial institution and minority designated credit union located in New York City. We are also a proud Member of Inclusiv, a national network of nearly 400 community development financial institution and minority-designated credit union located in New York City. We are also a proud Member of Inclusiv, a national network of nearly 400 community development credit unions. Together they serve 14 million predominantly low-income and minority communities and manage $190 billion in community-controlled assets.

During the pandemic, while working to help our Members access stimulus payments, deal with financial insecurity and access emergency loans, community development credit unions also mobilized to become a critical conduit to getting the Paycheck Protection Program out to minority small and micro businesses.

Our credit union was established in 1986 as a response to the closure of the last bank branch serving the Lower East Side of Manhattan. Thirty-five years later, we continue to play the same critical role as the only regulated CDFI in our community. We now manage around $90 million in assets and 9,000 people through three community institutions.

Our loan portfolio has more than $22 million in mortgages, over $20 million in loans to low-income housing cooperatives, and $16 million in Paycheck Protection Program loans.

Like other community development credit unions, we are the financial first responders. We are there when disasters strike. We were first to open in the aftermath of 9/11. Last year, we did it again. In a time of crisis, we inevitably see increased demand on our services.

Our experience with PPP was in itself a journey. We could not participate in the first round as the money ran out even before we could get on the SBA platform. In the second round, we faced some significant logistic challenges but our team quickly gained the expertise needed to ramp up our lending. We now have a strong pipeline that we hope to continue processing as long as the $9 billion set-aside is still available.

Most of our business borrowers are micro and very small entrepreneurs. They come to us frustrated by their negative experiences with other financial institutions.

Our average PPP loan is around $30,000. Our median loan is $21,000. The largest loan we made was $750,000 and the smallest was for only $220. Yes, $220.

Our role is to serve those that other lenders do not. They are the minority businesses that would have been left behind were it not for the work of the CDFIs and MDIs.

Our numbers are consistent with what Inclusiv has been tracking from its network. In 2020, community development credit unions originated $1.8 billion in PPP loans. This number is likely to be bigger this year. In fact, community based lenders collectively have deployed more than $22 billion in PPP loans so far. To finish strong, we ask SBA to share daily updates with community lenders on how much funding is available.

Moving forward, I would ask you to take advantage of this moment to create a strong framework to serve minority businesses. CDFI credit unions are a key to help these businesses, not just survive but to grow and thrive.

I propose the following:

Open the SBA Community Advantage Program to CDFI credit unions.

Improve the traditional 7(a) SBA program. The loan guarantee process is cumbersome to borrowers and challenging for community lenders.

SBA should streamline approval for loans under $150,000.

Provide resources to support technical assistance and training to ensure entrepreneurs can really succeed. We spend a significant portion of our time helping borrowers navigate the lending process.

Keep capital flowing. We are encouraged by the inclusion of $12 billion for the CDFIs and MDIs in the COVID relief bill and we plan to access all those opportunities. We applied for a $3 million grant under the CDFI Fund Rapid Response Program. This capital infusion will enable us to continue mobilizing funds to fill our lending.

We urge the CDFI Fund to move forward with that review process quickly and to prioritize on-the-ground CDFIs that are working directly with consumers, homeowners, and businesses.

We intend to apply for secondary capital through the U.S. Treasury's Emergency Capital Investment Program (ECIP). We encourage Treasury to make this program as flexible as possible and to ensure that the information requested in those applications is in line with the NCUA review. We also urge NCUA to make their reviews consistent and expeditious.

I thank you again for this opportunity and look forward to answering your questions.

Chairwoman DAVIDS. Thank you, Ms. Barry-Fall.

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

STATEMENT OF EVERETT SANDS

Mr. SANDS. Thank you. Good morning, Chair Davids, Ranking Member Meuser, Ranking Member Williams. Thank you calling a hearing on The Role of CDFIs and MDIs in Small Business Lending and for inviting me to testify.

My name is Everett K. Sands, and I have more than 20 years of experience in lending at MDIs, national banks, and at the only fintech CDFI, Lendistry.

For the past 5 years, as founder and CEO of Lendistry, my focus has been on responsible lending to underserved small businesses, and particularly those owned by minorities, women, veterans, and people in rural areas.

Lendistry is also a Community Development Entity (CDE), and a Member of the Federal Home Loan Bank of San Francisco, and a SBA lender.

Lendistry ranks second nationwide in SBA Community Advantage lending, which ranges from $50,000 and $250,000, and more than 60 percent of Lendistry's total outstanding principal loan balance is with minority and women-owned borrowers, and 70 percent to underserved small businesses.

Lendistry's intentional focus on these businesses and our ability to efficiently process high volumes of applications, have enabled us to make an impact during this period of urgent need. Over the past 13 months, Lendistry has been the primary point of contact in connecting more than a quarter of a million affected small businesses with $3.2 billion in loans and grants and we aspire to grow to at least $5 billion by year end.

In addition to providing PPP loans nationwide, including at least one county represented by every Member of this Subcommittee, Lendistry has served as the administrator for COVID relief grant programs offered by the states of California and Pennsylvania, and we have provided businesses in every county of those states with critically needed equity capital.

My message today is that the single most effective way for Congress and the Federal Reserve to substantially expand capital access to small and underserved businesses is to focus on making significantly more capital available to CDFIs and MDIs.

One unmistakable lesson of the determined economic relief efforts led by Congress over the past year in response to COVID is that small and underserved businesses are far and away more successful in accessing capital from CDFIs and MDIs than from other sources.

Furthermore, as a signatory to the Small Business Borrower's Bill of Rights, we at Lendistry see that the lesson also contain a market-oriented solution to the predatory lending problem, with the potential for greater supply of responsibly-priced capital channeled through CDFIs and MDIs. Yet, paradoxically, CDFIs and MDIs face more barriers to gaining an adequate supply of capital to deploy than other federally-regulated and federally-certified financial institutions.

In short, CDFIs and MDIs are essential, yet underutilized, pieces of the small business funding infrastructure.

The stakes in addressing this paradox are enormous. Disparity in access to capital on responsible terms is a critical hurdle for small businesses, both in powering the nation's economic and jobs recovery and in narrowing the racial wealth gap.

The capital access landscape many small businesses must traverse as they grow resembles the desert where the lifeblood of responsibly-priced capital is scarce. Worse, it is a desert that is made almost impossibly steep by the prevalence of predatory lenders that have filled a void left by two decades of bank consolidation. After a year of COVID relief, there is clear and compelling evidence that measures making capital available to CDFIs and MDIs will transform this steep desert that small businesses must cross on their path to growth and into a more fertile and flatter playing field.

Congress and the Federal Reserve already have put in place key building blocks for addressing the problem of CDFIs and MDIs lacking the capital necessary to be significantly more impactful for small businesses. The work to do is relatively straightforward.

Let me summarize three categories of recommendations which I have described in greater detail in my written testimony.

First, leverage several key building blocks that already have been established by Congress and the Federal Reserve by establishing mechanisms that are exactly analogous to ones that have already proven to be effective in opening the flow of capital to CDFIs and MDIs. My recommendations in this regard are making greater use of the Paycheck Protection Program liquidity facilities in all SBA programs; expanding SBA community advantage in three dimensions—length, loan amount and geographic reach; and making greater use of the Federal Home Loan Bank and programs that guarantee loans, such as the recently renewed State Small Business Credit Initiative.

The second category of recommended actions is optimizing the complementary nature of traditional banks, on one hand, and CDFIs and MDIs, on the other, for the benefit of small businesses. My recommendations in this regard focus on enhancing the incentives for traditional banks to partner with CDFIs and MDIs.

And the third area of recommendation is to create an office within SBA dedicated to supporting the efforts of CDFIs and MDIs as small business lenders.

Thank you again to the Subcommittee and the staff for the opportunity to provide my perspectives and recommendations. I look forward to engaging you further in response to your questions.

Chairwoman DAVIDS. Thank you, Mr. Sands.

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

STATEMENT OF ROBERT JAMES II

Mr. JAMES. Thank you, Chairwoman Davids, Ranking Member Meuser, Chairwoman Velázquez and Members of the Subcommittee. Good morning and thank you for this opportunity to testify on the role of CDFIs and MDIs in small business lending. It gives me great hope that one of this Subcommittee's first hearings of the 117th Congress is aimed at shining a light on this critical issue.

My name is Robert James II, and I am president of Carver Development CDE, an affiliate of Carter State Bank in Savannah, Georgia. I am also Chairman of the National Bankers Association (NBA). The NBA is the leading trade association for the country's Minority Depository Institutions. Our mission is to advocate for the nation's MDIs on all legislative and regulatory matters concerning and affecting our Members, as well as the communities we serve.

Many of our Member institutions are also CDFIs, and many are banks of choice for consumers and businesses who are underserved by traditional banks. NBA Members are on the frontlines, reducing the economic hardship in minority communities, which historically are the most vulnerable during any slowdown and have been hit hardest by this pandemic.

The House Small Business Committee and Chairwoman Velázquez have been instrumental in the inclusion of several provisions in multiple relief packages adopted during the course of the pandemic that ensure that MDIs and the small businesses and individuals that we serve are not forgotten during this national emergency.

The creation of the Emergency Capital Investment Program and the $3 billion plus up of the CDFI Fund will allow institutions like those within the NBA to make more credit available to individuals and small businesses in LMI communities. The NBA applauds the Congress for the adopting these two important capital measures and we look forward to working with you on other measures that will help the communities we serve.

It is important to note that 70 percent of minorities do not have a bank branch in their neighborhood and 94 percent of Black small businesses are the sole proprietors that are typically underbanked or unbanked.

Given the challenges faced by these small businesses, especially minority-owned small businesses, it is imperative to assess which type of banks are best positioned to provide access to capital for these communities. National banks may not be fastest in reaching this constituency but were principally minority communities that have accounted for 50 percent or more of the debts from this pandemic.

Traditionally, CDFIs and MDIs are critical economic development engines in minority and low-income communities, particularly due to our trusted relationships. Unfortunately, our relatively small scale and underrepresentation in the implementation of many of the relief efforts show that more intentional inclusion is required in program design. We saw this play out during each round of the PPP. Congress devised the program as a mechanism to aid small businesses suddenly found themselves forced to close during stay-at-home orders, a set of conditions that have favored larger businesses, including delaying the application of sole proprietorships, and program rules not allowing enough time for our MDIs and CDFIs to work with very small, under-resourced, minority-owned businesses has limited their access.

In light of the nature of this hearing, the NBA is pleased to recommend several potential policy options for consideration, including the establishment of an MDI office at the SBA which will focus on integrating our institutions as the outreach servicing minority small businesses across the country.

A critical component for this office would be a mandate for the SBA to preserve and promote minority depository institutions by: (1) preserving the number of MDIs; (2) providing technical assistance to ensure maximum efficiency in program implementation; and (3) promoting and encouraging the creation of new MDI partnerships.

It is very similar to requirements that make regulatory agencies currently comply and we believe that these requirements of the office ensure that MDI partners are able to effectively engage with the SBA.

Several other options are outlined in my written testimony including passage of the Ensuring Diversity Community Banking Act, Consumer Credit Enhancements, and Small Business Faith-Based and Nonprofit Institution Credit Enhancement.

In conclusion, the MDA applauds the Subcommittee for holding this important hearing and supports the Full Committee's ongoing efforts to ensure equity for all American small businesses. While we commend Congress on its leadership to date, much work needs to be done. We continue to support the MDI sector as we respond to the credit needs of small businesses that our Members [inaudible]. In this regard, the NBA and its Member institutions look forward to working closely with the Committee and the Subcommittee to find workable solutions that ensure minority small businesses ultimately have every opportunity to thrive.

Thank you again for the opportunity to testify. I will be pleased to answer any questions.

Chairwoman DAVIDS. Thank you, Mr. James.

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

STATEMENT OF WALTER L. DAVIS

Mr. DAVIS. Thank you, Chairwoman Davids, Ranking Member Meuser, and Members of the Economic Growth, Tax, and Capital Access Subcommittee. It is a pleasure to be with you today.

I come before you today with extensive senior executive leadership experience with some of the nation's largest financial institutions, as well as an entrepreneur.

Specifically, I previously co-founded and served as the chief executive officer of the African American founded and managed, CertusBank. Having reached the level of more than $2 billion in assets, CertusBank operated as the largest bank in the U.S. founded and managed by African Americans.

Prior to my work at CertusBank, I served as an executive vice president at Wachovia Corporation, which is now Wells Fargo Bank. While there, I managed a $70 billion retail credit and small business portfolio.

It is in this context that I would like to share some thoughts on the state of CDFIs and MDIs, as well as suggest some policies to improve the flow of capital into small businesses.

It is important to note that when we are speaking of CDFIs and MDIs, which include Black banks, in the broader context, what we are speaking of is our national access to capital and financing infrastructure for minority businesses and entrepreneurs. Quite often, these enterprises are doing and seeking to do business in the places that pose the greatest challenges and risks in the marketplace. These markets are often at the bottom of the economic ladder and separated significantly from the mainstream economy. These are the areas that are generally referred to as distressed or underserved markets and communities. These areas are reflected in what we now designate as opportunity zones, which by the way I had the privilege to work closely with Senator Scott and his staff on the opportunity zone legislation.

These communities do not have the same support or capital access system as mainstream communities. We admonish them to take advantage of what is the core of America, our unparalleled capitalist free enterprise system. But what happens when the federal government does not ensure that the free enterprise system is there for them like it is the mainstream marketplace? What happens is this: The disproportionate economic devastation that we see in communities persists. And these conditions are the bedrock of much of the social dysfunction and yes, racial unrest that we are experiencing today.

No business can grow without access to capital. The role of the government in my view is to make certain that the proper infrastructure is there to ensure equitable access to capital. During the pandemic, The Federal Reserve and Treasury did a laudable job working in tandem to make certain large financial institutions were able to meet the needs of their large and mid-sized clients through mechanisms such as the Commercial Paper Funding Facility, the main street Lending Program, and the Primary Dealer Credit Facility, among others. In this same period, we saw the SBA administer the Payment Protection Program and Economic Injury Disaster Relief Loan facilities but without the same efficiency. We witnessed once again that Black and Brown businesses were shut out of the all-important flow of capital during these programs' initial stages.

Adjustments were made and the calvary was called in to help get PPP loans to those most in need. In this instance, the calvary consisted of CDFIs and MDIs. CDFIs and MDIs handled the bulk of Black and Brown small business relief efforts.

I would like to say that I am not against the market and policy support for our large American businesses. We truly need that. I am saying that as a federal government, we must be as dedicated to providing for the needs of minority businesses in distressed communities.

Now, for a moment, let's talk about Black banks and their role in supporting underserved communities. One hundred years ago in 1921, 120 Black-owned banks were in existence across the U.S. Twenty years ago, that number had been reduced to 40, and today only 19 Black-owned banks remain in operation. One might think consolidation and moves to achieve economies of scale drove this shrinkage. However, there is only one of these institutions that has $1 billion in assets.

In an economy where there are multiple trillion-dollar banks, this is inexcusable. We expect Black-owned Banks to serve the "least of these." We need these institutions to be strong; however, we need to take a close look at some type of infrastructure, investment, and regulatory relief.

As it relates to solutions, we have talked about the Emergency Capital Investment Program. I believe this is a great program. However, right now currently the SBA will not allow banks to invest capital received from ECIP into SBICs (Small Business Investment Corporations). According to the SBA there are over 300 SBIC licenses and less than five in the hands of Black-owned fund managers.

Given the dire need of capital in the underserved market and particularly, Black communities, a provision should be made to allow CDFIs and MDIs to invest in ECIPs without restriction. Also, Congress should consider allowing CDFIs and MDIs to take in equity capital from opportunity zone investors and in turn lend it out to entrepreneurs will allow for more capital flow into minority and business communities.

I can speak more during Q&A about other thoughts but I thank you for your time and appreciate you allowing me to address you this morning.

Chairwoman DAVIDS. Thank you, Mr. Davis.

And thank you to everybody who has testified so far this morning. We appreciate everything you have shared with us.

I am going to start by recognizing myself for 5 minutes.

Mr. James, in the last few months, we have seen a concerted effort from the White House and the SBA to reach the smallest of small businesses through the Paycheck Protection Program. As they were largely shut out of the program early on, how would you evaluate SBA's outreach to the lending community and the emphasis on targeting the hardest to reach at this point?

Mr. JAMES. Thank you for the question, Chairwoman.

As you know, the role out of the program was a bit rocky. In the first round of the program, the SBA was very much focused on speed to market and getting capital in the hands of small businesses. Unfortunately, there was not really a lot of intentionality in the design of the program and so it was very difficult for particularly small institutions to access and deliver resources to the communities that we serve.

In addition, in the second round of the PPP program, the issues were a little bit better. It was a little smoother. We were able to access certain set-aside funding for small businesses in the communities we served. But there were issues in terms of the rules of the program, in terms of calculations, particularly for small sole proprietors and the way that they were required to calculate their eligibility. Then, in the third round of the program when it rolled out, we received very little notice. The program rolled out in early January. We received very little notice at our institutions about the change of technology platforms and the way that the program would be administered. And so that presented some challenges because many of our institutions had worked out their own process during the first two rounds and then they had to change processes with very, very little notice. Then, we had another situation where the new administration came in and made a very welcomed change to the calculation rules to allow more sole proprietors to access capital based on their gross income and not their net but that then caused it to slow down again due to the rule changes, changes in application forms which again impacted the ability to serve those small business customers effectively and efficiently.

So in future programs like this, Chairwoman Davids, I would just recommend that we design them on the frontend with a little bit more intentionality about how to make the capital available to the smallest and hardest to serve businesses and our institutions, as well as I am sure the other Members of the panel today would be happy to provide this Committee and the Congress in the future with very specific suggestions like the creation of an MDI office at the SBA which would really improve our ability to again make program designs very efficient going forward.

Chairwoman DAVIDS. Thank you.

Mr. Davis, and this question can be for anyone else on the panel who also wants to share. I am curious after your testimony, we know that access to capital is a challenge for clients of CDFIs and MDIs, but also for the institutions themselves. And earlier this year, Treasury announced the launch of the Emergency Capital Investment Program (ECIP) to provide emergency capital to CDFIs and MDIs.

I guess I am curious about your ideas about how we ensure that Treasury maximizes those benefits of this particular program and then also, if you have anything additional about the infrastructure needed to support MDIs and that sort of thing.

Mr. DAVIS. Certainly. Thank you for the question, Chairwoman.

The ECIP program I think is a really good idea. It is a novel idea. Two percent cost of capital being driven down to 50 basis points. And sometimes starting at 2-1/2 percent for subordinated debt I think is great. The issues that you have to think about is that this is for the best of institutions, the most well run. There are a lot of weaker institutions that serve these communities that need help as well. Tier one capital, as we know, is the lifeblood of any financial institution, especially a depository institution. And so if we think about a business model where these folks are set up to serve the poorest of communities, the profitability model is going to be a little bit different. And so I think that we can enhance this program by taking a look at what are those efforts that we can make for those weaker MDIs that are out there? How can we support them in a different way? I think that is going to be critical from my perspective.

Chairwoman DAVIDS. Thank you. And I realize that my time has now expired.

I am going to now recognize the Ranking Member, Mr. Meuser from Pennsylvania.

Mr. MEUSER. Thank you, Chairwoman.

Chairwoman DAVIDS. For 5 minutes.

Mr. MEUSER. So this is a very important subject and really quite intriguing.

Mr. Davis, I would just like to start with you. How do you feel the undeserved small businesses were served by the PPP and the EIDL programs via the CDFIs and the MDIs? I mean, in general or specifically, how do you feel the programs went?

Mr. DAVIS. Thank you, Ranking Member Meuser.

So, in general, I think the program went fine. As it relates to the EIDL program, the SBA administered those loans directly, and as we know, the SBA is not set up generally to make loans directly. So I would sort of think about something a little bit different in working through the intermediaries such as the MDIs and CDFIs as it relates to that.

Paycheck Protection Program, I think that worked generally well. A lot of feedback that I received from MDIs was two things. One was their lack of infrastructure to be able to handle the number of requests they had because they were the ones really serving those that had been left out and those most in need.

Number two, they talked about the amount that they were paid for these loans, and so I think that is something that we should look at. But in general, it was fine. As I stated in my comments, the SBA had to readjust, as did everyone else because the businesses that were most vulnerable were the ones that were being left out initially.

Mr. MEUSER. All right. Thanks.

So as the country opens up and the stores open up, how do you view the state of solvency of underserved small businesses and their continued access to capital?

Mr. DAVIS. So I think that one of the things I would look at is the main street Lending Program that the Federal Reserve implemented. I actually like the structure of that program. You know, 5-year loan, 5 percent is held by the institution and there are no payments the first year. Interest only the second year. And then amortized. And so something more downstream for smaller business in order to have the same effect so that it is sustainable over time. I know we talk about the PPP program but generally, that is a one time injection into these businesses. What we need is a sustainable capital infrastructure. The private markets are the most efficient markets. And so government's role in making sure that we establish those markets as a backstop so that these institutions can make more loans and have more flexibility in my opinion is what we need to take a look at.

Mr. MEUSER. Okay. I am very interested in revitalization in suburban, rural, as well as urban areas. So you brought up the idea of equity capital investments and the CDFIs within opportunity zones and creating opportunity funds. I do not know how much we can cover that right now but would you like to elaborate for 30 seconds on your point there?

Mr. DAVIS. Sure. As it stands today, MDIs and CDFIs are not considered qualified opportunity businesses. The opportunity to have investors invest in a fund and that fund in turn invest in these MDIs, especially, is a good opportunity to inject capital into these institutions so that they can further lend out in these communities. Right now, that does not exist as a provision. And so in my opinion, that is something that you should take a closer look at.

Mr. MEUSER. Okay, great.

And I want to ask your thoughts on this. The Restaurant Revitalization Fund is depleted. It was $30 billion, I believe, and they have got nearly $70 billion. How is that affecting your communities, and do you have restaurants coming to you through the CDFIs and the MDIs in a panic? How are the restaurants faring and how are the CDFIs serving them?

Mr. DAVIS. The restaurants have been in a tough situation. Obviously, when we shut the country down to some extent, these businesses where we have a lot of service individuals were some of the most vulnerable. And so when you think about those businesses, a lot of them went away and will not come back. One of the things that we really need to contemplate is being able to take a little more risk in the startups that we are going to see. We have to have more businesses willing to start up as we come out of this economic morass that we have been in. And so the restaurant business is one that I think is important and we are going to have to take a closer look at so I like the idea of the fund. Let's take care of those businesses from a smart perspective.

Mr. MEUSER. Sure. Thank you.

And Madam Chair, I know I am past my time. I would like to follow up with our witnesses on these very important issues so I would just like to perhaps do that with you, Madam Chair. But I yield back. Thank you.

Chairwoman DAVIDS. Thank you. The gentleman yields back.

The Chair would now recognize Rep. Evans for 5 minutes.

Mr. EVANS. Thank you, Madam Chair.

Madam Chair, I would like to question Mr. Sands. Mr. Sands, tell me about your partnership with the PACBFI Network and your work with California. Do you think the PACBFI network is a structure that be beneficial to other states? Mr. Sands?

Mr. SANDS. Thank you, Representative Evans.

I do. And just for background, Lendistry partnered with 17 CDFIs, bringing 18 CDFIs together, including MDIs. We took roughly about 64,000 applications in a period of 20 days for $1.1 billion in requests to service the state. As I believe you know, but just in case, we were able to reach underserved small businesses in rural areas, revitalization areas. We had a significant amount of women-owned businesses and minority-owned businesses. Lendistry was then able to repeat that same process of roughly 60 institutions in California and take 334,000 applications in roughly 15 days. The collaborations that we are now building with CDFIs, MDIs, and other mission-based organizations shows that there is a huge opportunity to deploy a significant amount of capital if given the opportunities with CDFIs and MDIs. Thank you.

Mr. EVANS. Thank you.

Mr. Davis, do you foresee CDFI continuing to use fintechs to assist them with their services? What are the benefits and challenges? And how can you provide better support to CDFIs that wish to use fintechs?

Mr. DAVIS. Thank you, Representative Evans for that question.

I am a big believer in financial institutions having robust digital capabilities as it relates to the future. And so when we think of a combination of CDFIs and fintechs, I think that could be a fairly novel idea. I think that a lot of people are going online now. Digital wallets. Digital is big. But I believe we will not see people in our lifetime get away from walking into bricks and mortar. That is just something that is going to be there. And especially in the communities that are the most vulnerable. If you pass by any bank branch in a distressed community on Friday afternoon, or you pass by any check cashing institution, you see lines. And so I think that as we can make a combination with digital robust capabilities of fintechs, along with CDFIs and MDIs, we can broader serve the communities that we are after.

Mr. EVANS. Mr. Sands, do you think fintechs should have a permanent place in SBA programs, especially to help targeted, underserved small businesses? And if so, why?

Mr. SANDS. Representative Evans, they do have a permanent place. That would be Lendistry. We are a fintech CDFI. We have proven that scale is something that can be done, that we can reach underserved small businesses. And I think that what fintech has allowed is a couple of things. The first thing I would mention is an unbiased approach to how we look at lending. Technology does not look at who the applicant is. It just takes them in and looks at their qualifications.

The second thing is it allows us to collaborate with those who might not otherwise have the ability to provide technology. I do agree with Mr. Davis, there will be people who will come into a physical location but I believe it is also not a silver bullet. We have to recognize that most people, even underserved, even when they do not have broadband, do have a cellphone.

The third thing I would mention is scalability, and the ability to scale is really, really important. And that goes not only just in volume, that goes in being accessible to small businesses when small businesses are doing their personal items. Banks are traditionally open from 9:00 to 5:00. Small businesses are open from 5:00 to 9:00. And so we have to think about these things, and we have to think about how to be more accessible to these small businesses when they are available and when they are doing their loan activities. Thank you.

Mr. EVANS. Thank you.

Mr. Davis, would you like to add any comment relating to the question I just asked?

Mr. DAVIS. No, sir. Thank you, though.

Mr. EVANS. Thank you. And I yield back the balance of my time, Madam Chair.

Chairwoman DAVIDS. Thank you. The gentleman yields back.

The Chair will now recognize Mr. Luetkemeyer, the Ranking Member of the Full Committee. You are now recognized for 5 minutes.

Mr. LUETKEMEYER. Thank you, Madam Chair.

Great panel today. We have got a lot of great folks here who have got a lot of personal knowledge of the industry and how these programs all work.

Let me start with Mr. Davis. You made the comment a few minutes ago and you have managed a small business portfolio at Wells Fargo, that we need to do something different with regards to delivery of these programs. And it would seem to me that as successful as the PPP program was and as disastrous as the EIDL program has been from the standpoint of fraud and abuse and mismanagement, the template is there for us to look at perhaps going to more direct lending from—take away the authority of SBA and use this third party, whether it is the banks, credit unions, or CDFIs, to be able to be the intermediary, the place where these loans originate, where the grants originate and have SBA become a grantor or a guarantor, I should say on these programs.

Do you think that is a viable option all things considered by the way that the lack of fraud and abuse in the PPP program where the third-party bank was involved in making these loans versus the EIDL program which it looks like here I have got a number of $62.7 billion potentially in fraud and I know that there was another $6.7 billion identity theft alone. Those are unacceptable figures. We have to do something different. So is this something you think would be workable?

Mr. DAVIS. As it relates to taking direct authority from the SBA, I do think it is something that is workable. Again, I go back to my thought that the markets are much more efficient and the thought process around using intermediaries, trusted intermediaries, when we give them the back-office support. A lot of MDIs and CDFIs complained during this last crisis that their technological backbone was not adequate to handle the volume that they received. And I think there is something that we can do to take a look at that. But I am a big believer in the intermediary system. And so I would not argue with looking at taking away the SBA's direct lending authority.

Mr. LUETKEMEYER. Mr. James, I serve on the Financial Services Committee as well and the Ranking Member on the Financial Institutions Subcommittee. I have seen you appear before us a number of times. You are a very impressive individual with your background and your knowledge. And I am thankful you are on the Committee today because I think you bring a lot of expertise to it.

So you heard my question to Mr. Davis. What would your opinion be of that situation, trying to find a better way to deliver the dollars to those folks who need it most, and it seems to be you are taking it right to the community versus having to go through some other government entity here to make that happen. What would your opinion be to that?

Mr. JAMES. Thank you for the question, Ranking Member Luetkemeyer. It is great to see you again. And thank you for your work on Financial Services, which has been very beneficial to our institutions.

Yes, sir. I believe that there is a real opportunity to look at the infrastructure that we built here in the past year and a half or so within CDFIs and MDIs. Leveraging additional technology, creating processes within our institutions. Many CDFIs did not have existing relationships with the SBA and now they do. Many of our MDIs had allowed their relationships to go dormant due to issues that they had had previously in many previous years with having the SBA honor guarantees and some other problems that occurred in previous generations. And so now that those relationships have been renewed and reactivated and we have created systems, I really do think that there is an opportunity for Congress to look at providing additional back office support to our institutions and really leveraging this capability that we built again to respond to the pandemic and potentially allow us to be the ones that are driving the resources into the communities. The issue of avoiding fraud and abuse is one that regulated institutions in particular have to take very, very seriously. So we have to comply with the Bank Secrecy Act and anti-money laundering requirements. We have to know our customers. And so the regulated financial institutions in particular are excellent at making sure that we identify who we are dealing with, whether we are doing it in a digital format or an in-person format. And so I do think that there is a great deal of opportunity to be explored in increasing our authority to deal with those customers that are closest to us, where we have the relationships, and where we also have the compliance infrastructure to make sure that the funds are going to the places that we intend for them to go.

Mr. LUETKEMEYER. Thank you for that answer. That is exactly what I was hoping you would say and I think you have articulated it better than I can. And I probably will submit for the record another question here with regards to the troubled debt restructuring and forbearance I think has been very, very helpful to all of the institutions—banks, credit unions, CDFIs, all of those folks who are working with these entities and hold loans that have been able to give the kind of forbearance it takes to be able to ride out this situation we are in. So I appreciate your being here today and I look forward to sending that question and your response to it. thank you, sir.

I yield back.

Mr. JAMES. Thank you.

Chairwoman DAVIDS. Thank you. The gentleman yields back.

The Chair will now recognize Rep. Bourdeaux for 5 minutes.

Ms. BOURDEAUX. Thanks so much. Thank you, Chairwoman Davids and Ranking Member Meuser.

It is great to see Georgia so well represented on today's panel with Mr. James from Savannah, as well as Mr. Davis, whose work goes to support Georgia small businesses. As the only Georgia Member on the Committee, thank you for your work to support the small businesses in our state.

My first question is for my fellow Georgian, Mr. James, but I welcome any input from some of the other witnesses if you have thoughts or experiences to share.

Mr. James, as you know, the initial rounds of the Paycheck Protection Program did not really reach many of the underserved businesses who needed help the most. And thanks to the work of Chairwoman Velázquez, many Members on this Committee, as well as your organization, subsequent rounds have shown improvement. But of course, now we have the next phase, which is PPP loan forgiveness. And I am curious how you and your Members have found access to PPP loan forgiveness and how is that process working with minority-owned businesses? And is there more than can be done to reengage minority-owned small businesses and ensure they have the information necessary to apply for loan forgiveness?

Mr. JAMES. Representative Bourdeaux, thank you so much for the question. It is great to represent the State of Georgia here today.

Yes. The forgiveness process is actually extremely important to our institutions. Obviously, all of our institutions, whether they be regulated or unregulated CDFIs and MDIs, as well as the large institutions, we entered into the PPP program as a bargain counting on 100 percent guarantee from the SBA and easy to navigate forgiveness process. We are grateful to the Committee for streamlining the forgiveness process, particularly for those borrowers under $150,000. The original application that came out before the Committee and Congress took that action was going to be too onerous. It was frankly more onerous than the original application itself and it was going to be very discouraging to us helping our customers receive that forgiveness.

One of the things that many of our institutions are doing is actually engaging even additional support. I know that my institution in Savannah, we have engaged a consultant specifically to assist our customers with that forgiveness process at no cost to them. Our median PPP borrower was about $26,000. We extended over 200 percent of our bank's capital to PPP because we saw the demand was really off the charts. And so we also decided early on this year that we needed to engage some additional assistance to make sure that our borrowers were able to complete even the streamline process. And so we just recently began a process of specific one-on-one outreach to our customers to make sure that they know what they need and they complete the process and get those loans forgiven so that they are not dragging debt into their additional efforts to recovery.

Ms. BOURDEAUX. Just to follow up on that. We did a quick survey—this was earlier in the year—of some small businesses in the district and just sort of found that minority-owned businesses seemed less likely to be getting the loan forgiveness and getting that process in place. Do you see any disparity in that and do you have any insight on what might be the causes of it?

Mr. JAMES. Well, you know, I think a lot of the disparity is the same sort of kind of structural disparity that you may have seen in the initial onset of the program. And so it is really important for financial institutions, whether they be MDIs, CDFIs, or large, traditional financial institutions to again do that one-on-one work. Our smaller institutions, the MDIs and the CDFIs, are the ones that are the closest to those individuals, the closest to those customers. We have those relationships and are taking the extra steps of providing support to our customers. I can certainly see how disparities are starting to pop up, and so I do believe that there is a real need for SBA, as well as the originating lenders to roll up their sleeves, particularly for smaller borrowers to ensure that they are making the kind of outreach to ensure that those folks do not have an obligation that they did not otherwise intend.

Ms. BOURDEAUX. Okay. Thank you so much.

Do any of the other panelists have any comments on that particular aspect of the PPP program?

Okay. If not, I think I am out of time. I yield back. Thank you.

Chairwoman DAVIDS. Thank you. The gentlelady yields back.

And the Chair will now recognize Mr. Donalds of Florida for 5 minutes.

Mr. DONALDS. Thank you, Madam Chair.

To the panelists, thank you so much for your time and your testimony. It has been very, very good, actually, so I really appreciate your time and you being here.

Mr. Davis, you mentioned opportunity zones in your testimony, a program in the Tax Cuts and Jobs Act of 2017 that has faced a lot of scrutiny despite obvious gains, America's most distressed communities have experienced. MDIs and CDFIs are left out of this provision.

Mr. Davis, can you speak to how CDFIs and MDIs could benefit small businesses if they were to be designed as opportunity zones?

Mr. DAVIS. Thank you, Representative Donalds for that question.

These institutions, as I said before, are a critical part of the community. And as it relates to investment of equity capital especially, they are highly important. If you think about the designation of opportunity zones, (it was highly politicized, so that aside) I think that it is a good program that can continue to be tweaked around the edges because we now do have those designations. And the idea in the spirit of the legislation was to unleash as much capital as possible into these communities without damaging the fabric or the individuals in those communities. And so because these MDIs and CDFIs have a real community component to them, they are much more capable of investing it and loaning to the folks and the businesses in these communities and others. And I think because they are so close to the ground, it would be a great opportunity to have them engaged and have the ability to be able to accept qualified opportunity fund investments.

Mr. DONALDS. Thank you for that response. That is actually quite helpful.

We often hear about how minority and rural microenterprise owners were late to access PPP and EIDL at the beginning of the pandemic. While I believe many other factors played into this, I think the root of the problem is largely due to the lack of financial institutions in these areas as a result of Dodd-Frank. Regulations meant to punish big banks actually hurt smaller institutions the most. From the second quarter of 2008 to the third quarter of 2020, CDFIs had a decline of over 47 percent and over a third of MDIs went under during that same timespan. The widespread loss of these businesses present a serious threat to the financial stability of consumers and businesses located in areas almost exclusively served by community banks and other minority depository institutions.

Mr. Davis, what steps do you think Congress could take to kind of spur development in these institutions?

Mr. DAVIS. So Representative Donalds, you bring up an interesting point. The cost of compliance, regulatory compliance is very burdensome on financial institutions. And if you think of these institutions that are the smallest and those that are lending to the least of these, that regulatory burden is something to consider. Scale is important in the financial services business. When I mentioned that we went from 120 to 40 to today 19 Black-owned banks and only one of them has a billion dollars in assets, that is inexcusable. So an investment in those banks from an infrastructure standpoint. But the regulatory piece has to be addressed as well. I have got experience with a regulator who said if you are going to build a $5 billion bank, you build a $5 billion infrastructure even before you get there. And so I have seen how these regulatory burdens can actually hurt institutions.

Do not get me wrong. We need strong institutions there and we need regulations. But I think that there is some type of opportunity for Congress to look at how these banks are regulated as well as some type of backstop. And I am sure Mr. James can probably speak to that more articulately than I can. But that is my opinion, sir.

Mr. DONALDS. That is actually a great segue because I was going to ask Mr. James for his opinion as well.

So Mr. James, if you could comment I would appreciate it.

Mr. JAMES. Thank you, Congressman.

Mr. Davis is correct. I think that we need to find the right type and amount of regulation. None of our institutions want there to be unsafe or unsound lending practices. We certainly want to be very, very compliant with Know Your Customer and the Bank Secrecy Act and AML, but there is certainly an enormous burden. And that burden does not change regardless of the size of your institutions. You still have to comply with the same laws and regulations no matter the size of your institution. Of course, small scale and minimal capital will impact our ability to efficiently provide that type of compliance which impacts our ability to provide service back to the community. And so just having a right size type of regulation based on our institution size and our reach into the community would be welcomed. And so we welcome Congress and to have the opportunity to work with you to try to find the right size regulations for institutions that are serving the smallest and most hard hit and vulnerable communities.

Mr. DONALDS. Thank you.

Madam Chair, I apologize for being slightly over my time but I yield back.

Chairwoman DAVIDS. Thank you. The gentleman yields back.

The Chair will now recognize Ms. Chu for 5 minutes.

Ms. CHU. Thank you.

Mr. Sands, community financial institutions like CDFIs and MDIs have been instrumental in delivering PPP assistance to underserved communities throughout this pandemic and I am particularly interested in your perspective as a CDFI and one of the country's largest community advantage lenders. PPP showed that the community advantage model can work at scale by leveraging mission-based lenders to connect small businesses in underserved markets to capital. One reason this model works is because community advantage lenders, unlike traditional banks and 7(a) lenders provide technical assistance to their clients. This assistance not only helps them to secure that initial community advantage loan but also prepares them for future growth.

So could you discuss the role of technical assistance and mission-oriented lending and how this strengthens the Community Advantage Program?

Mr. SANDS. Absolutely. Thank you, Representative Chu. And I am glad to see you representing California.

I would like to say that I think technical assistance, we all know—all the lenders who are on the panel and in the room and who have done the studies—we know that providing technical assistance services has a direct correlation to having lower default and loss rates inside of our institutions. Community development financial institutions have been focused on providing assistance and that assistance is helping these borrowers to not only have access to community advantage and PPP loans, but other loans historically, and they do much better in terms of paperwork compliance and different things like that as they are scaling their businesses. Thank you.

Ms. CHU. Thank you for that.

Ms. Barry-Fall, PPP funding is exhausted for traditional lenders and is nearly exhausted for community financial institutions like CDFIs and that means time is almost out for us to address racial disparities in the program. Earlier this month the L.A. Times published an investigation finding that in Los Angeles, businesses in majority White communities received PPP loans at twice the rate of those in Latino neighborhoods, 1.5 times the rate of Black neighborhoods, and 1.2 times the rate of Asian neighborhoods.

I sent a letter to SBA and Treasury asking for an official analysis of racial disparities and a plan to address this issue. Can you expand on any racial disparities and PPP uptick that you have seen in your community and talk about ways that SBA and Congress can leverage community financial institutions moving forward to address these disparities?

Ms. BARRY-FALL. Can you hear me?

Ms. CHU. Yes.

Ms. BARRY-FALL. Yes. Thank you for your question, Congresswoman.

One of the things that we have considered is who is getting the PPP. As of now, we are just kind of processing all the PPP applications that we are receiving. And we serve our majority is like low-income communities. We are not like really kind of going through the whole detail of the application and find out like what is the percentage of it. But I am sure like because we have been like serving mostly our Members, I am sure like we have been targeting like our target market rate.

Ms. CHU. Thank you for that.

Mr. Sands, thank you for your recommendations for the Community Advantage Program. It aligns with my legislation that passed the House, unanimously passed this last December which proposed to authorize the program for 5 years, increase the maximum loan amount to $350,000, and expand targeting of underserved businesses. And we have to make sure that as we recover from COVID that there is long-term small business recovery. As a major lender, can you discuss how giving the program long-term statutory authorization will lift it out of the short-term status and impact the program's effectiveness?

Mr. SANDS. Thank you again for the question.

I actually think it is quite surprising that anyone would not have voted for the bill. Number one, it is the only program in SBA's history, and possibly in any of administration's history, that has double digit numbers in terms of lending to Asians, African Americans, and Hispanic Latinos. That alone shows that the program works and that alone shows that the program should have possibly its own appropriation, possibly higher loan guarantees, and other things to supercharge it. I would also like to make a recommendation that we look at the PPLF facility as possibly a funding source for Community Advantage going forward. If the CDFIs and MDIs had that ability and had that access to capital, I think you would see those numbers be even more expanded and even more tremendous than what they are today compared to the other programs. Thank you.

Ms. CHU. Thank you. I yield back.

Chairwoman DAVIDS. Thank you. The gentlelady yields back.

The Chair will now recognize Ms. Van Duyne for 5 minutes.

Ms. VAN DUYNE. Thank you very much, Chairwoman Davis and Ranking Member Meuser for holding this hearing today.

During my tenure as mayor, the City of Irving witnessed unprecedented economic growth and development. We added thousands of new jobs and billions of dollars to our local economy. With these improvements, we were able to bring in jobs, build new places to live, and create more opportunities for people to learn, thrive, and grow. I appreciate the opportunity to hear from today's panel on how we can better foster capital for our small businesses.

But I am also very deeply concerned about the current economic environment that they face. They are falling by the wayside as the Biden administration touts unemployment benefits that contributed to one of the most disappointing jobs reports that we have seen in history and continue to provide the necessary and unnecessary stimulus that is leading to skyrocketing inflation, protections, and all Americans.

We cannot talk honestly about wanting to provide opportunities for small businesses in underserved communities while Congress stands by and actively competes against them for employees. The number of employees I have spoken with in my district desperately seeking employees is staggering. Make no mistake; the federal government is actually hurting the very businesses in need of help.

I am looking forward to the work ahead on this Committee as the economy reopens and we need to transition out of the pandemic response. But this Committee also needs to hear directly from administration officials who are in charge of these programs. And I would like to reiterate my request to bring Small Business Administration officials in front of this Committee as soon as possible. Until that time, I look forward to hearing our witnesses' thoughts on improving the flow of capital to small businesses.

With that, I would like to ask Mr. Davis, while I was working at HUD, I worked a lot with opportunity zones and I think they are strong drivers of economic activity in communities due to the incentives for private investment and minimal red tape. In your testimony you mentioned allowing CDFIs to receive equity investments as opportunity zone businesses. Can you talk more about how this would work? And are there any other improvements to opportunity zones that you think should be made to help small businesses even further?

Mr. DAVIS. Thank you, Representative Van Duyne, for that question.

Starting with the last first, I think that one of the things we talk about in the bill of opportunity zones and tweaking it is transparency. What we do not have today is a measuring or reporting mechanism to know exactly who we are helping and how we are helping them. And so I think that is going to be an important issue going forward as we think about tweaking this.

The other thing as this relates to getting capital flow into these businesses, during my testimony I also talked about the ECIP program at SBIC. A lot of people forget about SBICs as part of the SBA. And these licenses are very valuable. Two to one, three to one matches. And so again in my testimony I stated out of over 300, only 5 are in the hands of Black-owned founders. That means 1 percent of those dollars go to Black-owned businesses; 1 percent go to Hispanic businesses as I am told by the SBA.

We need every bit of capital flowing to these communities that we can get because when they thrive, we thrive broadly. And so as we think about improving the flow of capital, I think that is one opportunity to really do it along with opportunity zones as well.

I want to reiterate something Mr. Sands said though as it relates to technical assistance. Whatever we do, Representative Van Duyne, as we think about how we get more capital flowing, and I have talked about startups before, this technical assistance piece is going to be critical. And I think that, for example, you can be the best chef in the world but meeting payroll, growing a business, understanding staff are different things. And so I think those are all elements that go into this.

Ms. VAN DUYNE. Excellent.

Can you also identify any burdensome, like be specific about burdensome regulations on lenders that make it difficult for them to make loans in these underserved communities?

Mr. DAVIS. I would first off start with the overall cost of compliance and regulation. The cost is the same, as Mr. James said, it does not matter what size you are. You still have the same costs. In these institutions, we need scale. And in order to scale, there has to be invested equity capital. And so until we look at a different way to reform the regulatory aspects of how these institutions are regulated specifically, I think that it is going to be interesting overall. So I would not look at any one specific regulation. I would look at the cost and burden of overall regulation because that is where it really hurts these small institutions.

Ms. VAN DUYNE. Okay. Thank you.

I think I am over my time.

Chairwoman DAVIDS. The gentlelady yields back.

It looks like, okay, I thought maybe one more Member would be joining us.

Well, first of all I would like to say thank you again to all of our witnesses for joining us today. I also want to thank you for your work on behalf of America's underserved small businesses, particularly over this last year that we know has been so difficult during the pandemic. I know I heard stories from lots of employees at organizations like yours that went to great lengths to help their clients access the relief that they needed to stay in business and keep their doors open. So your tireless efforts have made a difference in the lives of so many entrepreneurs. And I know I, and so many others, appreciate you all for that.

And then moving forward, we have to utilize and maximize your work ethic and also the connection to underserved communities to help ensure that we do not leave people behind as our economy recovers.

To that end, I am committed to working with the SBA to help its capital access program serve the underbanked and also to monitor the engagement of the federal banking regulators with CDFIs and MDIs as it relates to small business lending.

So today's hearing has given us a lot of ideas about ways to empower CDFIs and MDIs, and I am looking forward to working with the Members of this Committee to act on those recommendations.

I would ask unanimous consent that Members have 5 legislative days to submit statements and supporting materials for the record.

Without objection, so ordered.

And if there is no further business to come before the Committee, we are adjourned. Thank you.

[Mr. Walter L. Davis did not submit his QFR's in a timely manner.]

[Whereupon, at 11:21 a.m., the subcommittee was adjourned.]

APPENDIX

Testimony of Aissatou Barry-Fall
Chief Executive Officer
Lower East Side Peoples' Federal Credit Union

Before the Committee on Small Business
Subcommittee on Economic Growth, Tax, and Capital Access

Hearing: Lending deep in communities of color during and in the aftermath of the pandemic. The role of CDFIs and MDIs in providing access to micro and small minority business owners.

Chairwoman Davids, Ranking Member Meuser and Members of the Subcommittee, thank you for inviting me to testify at today's hearing.

I am the Chief Executive Officer of the Lower East Side People's Federal Credit Union (LESPFCU), a not-for-profit community development financial institution, minority designated credit union located in New York City. We are also a proud member of Inclusiv, a national network of mission driven community development credit unions.

Near 400 credit unions throughout the country and financial cooperativas from Puerto Rico are part of the Inclusiv network. Together they serve 14 million predominantly low income and minority communities and manage $190 billion in community-controlled assets. These institutions are like our credit union, CDFI certified, low income designated, MDI designated or have a combination of all those credentials.

Like us, these community development credit unions have been on the front lines delivering capital to people and communities most severely impacted by the recent public health and economic crises.

During the pandemic, while working to help our members access stimulus payments, deal with financial insecurity and access emergency loans, community development credit unions also mobilized to become a critical solution and conduit to getting the Paycheck Protection Program out to minority small and micro businesses that simply would not have been served by large banks.

Through my remarks, I will be sharing the journey of my credit union to illustrate our impact on the community but will also speak from a national perspective to convey the critical role CDFI/MDI credit unions play as financial first responders and minority lenders embedded in communities historically neglected by the financial mainstream.

Established in 1986 as a response to the closure of the last bank branch serving the Lower East Side of Manhattan, our credit union represents the first instance in which a community could effectively use the powers of the Community Reinvestment Act (CRA) to mitigate the impact of branch closures on a low income, minority community.

Thirty-five years later, the Lower East Side People's FCU continues to play the same critical role as the only regulated CDFI in our community, providing responsible, transparent, affordable, and yet sustainable financial products and development services to a population that has been systematically redlined by mainstream financial institutions. Our credit union has been instrumental in mitigating the impact of the gentrification process experienced by the community, by promoting savings and asset-building among low-income families and stimulating economic development in the neighborhoods we serve.

Today our credit union has expanded to serve several additional financially underserved communities throughout New York City, with branches in the North Shore of Staten Island and in East Harlem. The credit union currently manages $90 million in assets and serve near 9,000 members.

Most of our members are invisible to the financial mainstream. They are predominantly low- or moderate-income consumers; most are Latino or like me, immigrants who can overcome the barriers created by a financial system that does not work for many people. I am proud to say that our credit union is a full-service financial institution and offers a full range of financial services, from savings and checking accounts to credit cards, business, mortgage, and real estate loans, as well as money transfer services.

Since our credit union's inception, we have mobilized hundreds of millions in local savings, leveraged and reinvested them right back as affordable loans for consumers, micro/small businesses, affordable housing, and nonprofit organizations in our target communities. Currently our loan portfolio has more than $22 million in mortgages; over $20 million in loans to low-income housing cooperatives; $1 million in micro and small business loans and $16 million in Paycheck Protection Program loans.

All this from a small CDFI that against all odds, has become an engine of economic revitalization in the communities we serve, which happen to be among the most disadvantaged in New York City.

Our story is like the story of other community development credit unions around the country. We are the financial first responders. We are there when disasters strike, we step in when banks leave, we increase our lending when mainstream lenders retreat after economic downturns.

After 9/11, the Lower East Side People's FCU was one of the few financial institutions that reopened that very same week. We dusted off our lobby and started helping community residents and businesses, providing cash, and deploying hundreds of loans to keep small businesses afloat in Lower Manhattan. Last year we did it again. Our branches continued functioning. In a time of crisis, we saw unprecedented demand for our services that resulted on an acceleration of our growth.

For a regulated CDFI such as ours, growth is both a blessing and a curse. While we are a sustainable operation, our margins are thin because of the population we serve. Credit unions do not have access to capital markets, therefore our ability to build capital to sustain growth depends on our own ability to generate earnings. Without the resources we have been able to access through the CDFI Fund, the Lower East Side People's FCU would not have the impact and the institutional capacity we do now. Over the last 20 years, our credit union has received over \$6 million in technical and financial assistance grants from the CDFI Fund. These investments have been leveraged 15 times over and as a result, we have exponentially scaled up our lending, expanded our reach and significantly increased our capacity to serve the community.

Our experience with PPP was on itself a journey. We could not participate in the first round as the money was exhausted even before we could get on the SBA platform. We focused on disseminating information and educating businesses about the program. On the second round we faced some significant logistic challenges just trying to get on the SBA platform, but our team quickly gained the expertise needed to assist micro/small business owners more efficiently. Most of the PPP origination on our books have taken place this year. We now have a strong pipeline that we hope to continue processing, as long as the \$9 billion set aside is available.

The vast majority of our business borrowers are micro and very small entrepreneurs. They come to us frustrated by their negative experiences with other financial institutions. Most importantly, they trust us: *"It has been a challenging and intense year. In the midst of the pandemic that shook the entire world, bringing all businesses to their knees, you managed to be a wonderful professional and such a caring person. Your long hours, your thoughtfulness helped my company get through this year. Thanks to the credit union we were able to access the paycheck protection program. We are still around because of you"* says one of or PPP borrowers.

Our credit union is in the business of empowering consumers, we build trust and provide asset building opportunities for individuals and businesses that have been written off by the mainstream financial system: *"We have been banking with a major commercial bank for 9 years saving every penny we had but the day we applied for our first credit card, we were denied. Our son referred us to a local credit union and after 9 months at Lower East Side People's FCU, we have a savings and checking accounts, a credit card, and we just started our first mortgage application"*, says a community resident that opened her account during the pandemic.

Our credit union is a lifeline for many in our community: *"Our collaboration with Lower East Side People's FCU has been a life changing experience for the community we serve. Thanks to their support, our clients have been able to build trustworthy relationship with a financial institution and safely establish a savings path that allows them to maintain themselves and their families free of violence. We know that without economic safety there is no safety for survivors".* Says one of our hundreds of community partners.

Our average PPP loan is around $30,000. Our median loan size is $20,833. The largest loan we made was for $750,000 and the smallest one, for only $220, yes two hundred and twenty dollars! Let me just point out that the amount of work is the same, but we did not turn anyone away as other mainstream financial institutions did. Our role is to serve everyone in the community, particularly those businesses that other lenders cannot or will not serve. These are the minority businesses that would have been left behind were not by the work of CDFIs and MDIs.

These statistics are consistent with what Inclusiv has been tracking from its network of community development credit unions. In 2020, community development credit unions originated $1.8 billion in PPP loans, and given the experience of my credit union alone, we believe that this number has been far exceeded so far in 2021. In fact, community based lenders collectively have deployed more than $22 billion in PPP loans so far. We have increased our business borrowers more than ten-fold and a critical source of PPP financing for minority and women owned businesses, small and very small businesses.

Our teams are continuing to work around the clock processing loans in anticipation of the May 31 deadline. In the past two weeks, there has been confusion about how much PPP funds are available and whether the remaining funds will be available through the deadline. We have had to pull back on accepting new applications until we can make sure the businesses we are working with have made it through the approvals. SBA itself has reached out to urge us to continue accepting applications, but the delays in the approval process and our own capacity limitations prevent us from doing so. We urge SBA to:

- Share daily updates with lenders and support organizations like Inclusiv on how much funding remains so we can better determine whether we can accept new applications.

- Provide more information on applications with delays or holds on approvals to help us know whether the hold is due to a challenge with a particular borrower or whether there is an overall system issue.

- Do a review of businesses on hold due to ITINs. Throughout the period, there have been many challenges submitting loans for borrowers with ITIN numbers. Many of these challenges have been resolved. But there are still many ITIN borrowers that have been on hold for weeks and even months without knowing why. We encourage SBA to review these holds to figure out if there is a systemic issues with the information submitted for entrepreneurs with ITINs.

We know how hard SBA staff is working to help resolve issues and we also see they need the resources to help handle these reviews of holds and provide the steady updates so we can get the remaining funds out.

But even as we drive to the finish line on PPP, we are turning our attention to what comes next. Like Lower East Side, credit unions around the country have connected to hundreds of thousands of businesses that had never accessed formal safe and responsible lending for their businesses. Now that we have made these connections and reviewed their financials, we can see how their business growth has been hampered by a lack of steady, reliable, and affordable capital. We are uniquely equipped to do this in the long run, but we need the resources to do it.

Post PPP Opportunities

We have a moment of opportunity here to serve minority businesses and entrepreneurs better in the future. And CDFI credit unions are key to helping these businesses not just survive but to grow and thrive. We need to work together with Government Agencies like SBA, CDFI Fund and the Treasury Department to create a framework that more effectively helps CDFI lenders mitigate our risk, build our balance sheets to continue to meet the demand and access sources of capital to leverage the deposits needed to expand responsible financing opportunities to business borrowers in minority communities throughout the nation.

To this effect, I would like to propose the following ideas for your consideration:

- Open the SBA Community Advantage Program to CDFI credit unions. It provides guarantees between 75% - 85% for small businesses for loans up to $250,000. The guarantees are targeted to underserved communities and thus are more flexible than traditional SBA guarantee programs. Unfortunately, only 501c3 lenders can currently participate.

- Improve the traditional 7a SBA program. The loan guarantee process is cumbersome to borrowers and challenging for community lenders who provide intensive support to help borrowers move through the hurdles. We believe SBA should explore streamlined automated approvals for smaller loans under $150,000 . This would significantly expedite our ability to quickly make loans as the businesses need them.

- Provide resources for technical assistance. The businesses we serve are not just challenged by limited access to capital. They need the guidance and support we provide to enable micro and very small business owners access these opportunities and make the most of the financing they receive. This requires investment in technical assistance and training to ensure entrepreneurs are set up for success. At Lower East Side, a significant portion of our loan officer's time is spent on helping the borrower navigate the lending process: gathering their documents, preparing budgets and business plans.

- Keep capital flowing. To keep up with the demand we have seen over the last twelve months CDFI and MDI credit unions need access to affordable and permanent sources of capital. We are encouraged by the inclusion of $12 billion for CDFIs and MDIs in the

COVID relief bill. We plan to access all programs Treasury and the CDFI Fund make available:

- We applied for a $3 million grant under the CDFI Fund Rapid Response Program. This capital infusion will enable us to continue to grow our deposits and our lending. We urge the CDFI Fund to move forward with that review process quickly and to prioritize on-the-ground CDFIs that are directly consumers, homeowners, and businesses most affected by the pandemic.

- We also intend to apply for secondary capital through the US Treasury's Emergency Capital Investment Program -ECIP. We encourage Treasury to make this program as flexible as possible and to ensure that the information requested in those applications is in line with the NCUA review and approval process. We also urge NCUA to make their reviews of ECIP applications consistent and expeditious. We are counting on this equity infusion to keep meeting the growing needs of the micro and small business community we serve and to expand our impact in financially underserved neighborhoods in New York City. These communities have been devastated by the economic crisis and need help now. We cannot afford to wait many months in review processes while the demand for our services grows.

I thank you again for this opportunity to highlight the role of regulated community development financial institutions and I look forward to answering your questions.

TESTIMONY OF EVERETT K. SANDS, CEO OF LENDISTRY,
TO THE HOUSE SMALL BUSINESS COMMITTEE'S
SUBCOMMITTEE ON ECONOMIC GROWTH, TAX, AND CAPITAL ACCESS

"Examining the Role of Community Development Financial Institutions and Minority Depository Institutions in Small Business Lending"

May 18, 2021

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Committee Chairwoman Velázquez, Ranking Member Luetkemeyer, Subcommittee Chair Davids, Subcommittee Ranking Member Meuser, Vice Ranking Member Williams, and distinguished members of the Subcommittee, thank you calling a hearing on The Role of CDFIs and MDIs in Small Business Lending, and for your interest in my perspectives and insights on this topic.

My name is Everett K. Sands, and I have more than 20 years of experience in lending at Minority Depository Institutions, at one of the largest national banks, and at the only fintech Community Development Financial Institution, Lendistry. For the past five years, as founder and CEO of Lendistry, my focus has been on responsible lending to underserved small businesses, and particularly those owned by minorities, women, veterans, and people in rural areas. Since the onset of COVID-19 lockdowns and their related impacts, Lendistry has been the primary point of contact in connecting more than a quarter of a million affected small businesses with $3.25 billion in loans or grants.

My message today is that the single most effective way for Congress and the Federal Reserve to significantly expand capital access for small and underserved businesses is to focus on making significantly more capital available to CDFIs and MDIs. One unmistakable lesson of the determined economic relief efforts led by Congress over the past year in response to COVID is that small and underserved businesses are far and away more successful in accessing capital from CDFIs and MDIs than from other sources. Yet, paradoxically, CDFIs and MDIs face more barriers to gaining an adequate supply of capital to deploy than other federally-regulated and federally-certified financial institutions. In short, CDFIs and MDIs are essential, yet underutilized, pieces of the small business funding infrastructure.

The stakes in addressing this paradox are enormous. Disparity in access to capital on responsible terms is a critical hurdle for small businesses, both in powering the nation's economic and jobs recovery, and in narrowing the racial wealth gap.

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

1. *Leverage several key building blocks that already have been established by Congress and the Federal Reserve by establishing mechanisms that are exactly analogous to ones that already have proven to be effective in opening a flow of capital to CDFIs and MDIs.* My recommendations in this regard focus on:
    - Making greater use of the Paycheck Protection Program Liquidity Facility (PPPLF) and all three SBA 7(a) programs;
    - Expanding the Community Advantage program, in three dimensions – length, loan amount and geographic reach; and
    - Making greater use of the Federal Home Loan Banks (FHLB) and programs that guarantee loans, such as the recently renewed State Small Business Credit Initiative (SSBCI).

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2. *Optimize the complementary nature of traditional banks, on one hand, and CDFIs and MDIs, on the other, for the benefit of small businesses.* My recommendations in this regard focus on enhancing the incentives for traditional banks (which have outstanding access to capital but poor connectivity with small businesses) to partner with CDFIs and MDIs (which have outstanding connectivity with small businesses but poor access to capital).

3. *Create an office within Small Business Administration dedicated to supporting the efforts of CDFIs and MDIs as small business lenders.*

I. Introduction

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

As a banker I typically served in a change agent capacity, being called in to turn around a unit of a bank, and as such, units I have led typically recorded annual growth rates of between 300% and 600%. I have closed more than $4 billion in transactions. During my career, businesses I have led have been regulated by the Federal Deposit Insurance Corporation, Federal Housing Administration, Federal Housing Finance Agency, Federal Home Loan Bank of San Francisco, Office of Comptroller of Currency, Office of Thrift Supervision, Small Business Administration, Veterans Administration, and various state regulators.

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

I recruited a team to start Lendistry with me because I saw that consolidation trends in the community banking and regional banking segments were leaving an expanding gap in the small business lending market. Small businesses that were ready to graduate beyond financing themselves through credit cards and home equity were finding far fewer community banks

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available to help them take the next step in their growth so that they eventually could become large enough for a large regional or national bank to serve them. (The dual trends of dwindling numbers of community banks and larger banks withdrawing from the smaller end of the small business market due to operational efficiency considerations has continued and become so pronounced that I believe the definition of "underserved small business borrower" should be expanded to include a loan size threshold, and loan size has become a larger and more significant barrier to capital access for small businesses than all other traditional criteria combined.) Into this credit vacuum for small businesses, unscrupulous lenders have proliferated and thrived.

This adverse capital availability environment for small businesses was, and continues to be, compounded for entrepreneurs with historically weaker ties to traditional banks, including women and minorities, as well as entrepreneurs based in rural areas with fewer banking options. I believed technology could play a significant role in the solution, and by approaching fintech from my banking background rather than from a technology background, I believed I could bring a somewhat differentiated lens to the market.

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

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

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

Lendistry also has a highly nuanced understanding of small business ecosystems. In the fourth quarter of 2020, Lendistry, Next Street Financial, Concerned Capital, and other local stakeholders, published a detailed examination of the current small business community and supporting ecosystem in Los Angeles County, with a focus on local businesses owned by people of color and the COVID-19 response and recovery.

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Ecosystems and partnerships are fundamental to Lendistry's operating method and philosophy. Lendistry has partnerships in place with more than 50 organizations, including business associations, chambers of commerce, Community Development Financial Institutions, and mission-based organizations. These partners in turn have extensive networks, enabling Lendistry to reach underserved geographies and demographics, and provide services and support in more than 15 languages.

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

II. Lendistry and COVID-19 Small Business Recovery Effort

Lendistry's focus on small and minority owned businesses, and our ability to efficiently process high volumes of applications, have enabled us to make an impact during this period of urgent need.

Over the past 13 months, Lendistry has deployed, or has firm commitments to deploy, $3.25 billion to more than 250,000 small businesses in PPP loans and government COVID relief grants, and we project that "capital deployed" figure to grow to at least $5 billion by year-end. In addition to providing PPP loans nationwide, including in at least one county represented by every member of this subcommittee, Lendistry has served as the administrator for COVID relief grant programs offered by the states of Pennsylvania and California, which have provided small businesses in every county of those states with critically needed equity capital.

New business formation, and small businesses in general, are engines of job creation in economic recoveries. Small business ownership remains the most effective path available to minorities to narrow the racial wealth gap. Therefore, this subcommittee's purview of capital access for small business is vitally important, both to the health of the national economy and to our national aspiration as a bastion of economic opportunity for all.

III. The Capital Access Landscape for Small Business Today

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

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traditional banks, whose median asset size ballooned by more than 500% between 2000 and 2019.[1]

All of the types of small businesses I just cited can be considered "underserved small businesses." And the economic relief efforts in response to COVID over the past year have provided ample evidence that dramatic actions to increase the availability of capital will only benefit these underserved small businesses if the capital is connected to effective conduits that are willing and able to reach them. While traditional banks are very effective in deploying very large amounts of capital, their operational incentive is to do so through as few separate underwritings as are prudent from a risk management perspective, resulting in very large average loan size. This logic also bears out in Federal Reserve survey data regarding the businesses that traditional banks tend to establish relationships with. Minority-owned businesses – which are disproportionately small businesses – are much less likely than other businesses to have a banking relationship[2]. Thus, well-intended measures that push more capital to traditional banks can have the effect of incentivizing banks to make larger loans, as we saw with the original version of PPP, or can result in vast amounts of available capital simply going untapped, as we saw occur with the original version of the Main Street Lending Program.

IV. A Year of COVID Relief Contains Clear Lessons for Action and Reason for Hope

The good news is that the small business COVID relief effort also has validated that CDFIs and MDIs are effective conduits for deploying capital to small businesses, and that when capital is made available to CDFIs and MDIs, the accessibility of responsibly-priced capital improves for small businesses generally, and for underserved small business especially.[3] Moreover, as a signatory to the Small Business Borrower's Bill of Rights, we at Lendistry see that the lessons of the past year also contain a market-oriented solution to the predatory lending problem, with the potential for responsibly-priced capital to drive out predatory capital. Because high-interest

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

2 Federal Reserve Banks, 2019 Small Business Credit Survey and 2020 Report on Employer Firms. Fewer than 1 in 4 Black owned businesses with employees and fewer than 1 in 3 Latinx-owned businesses with employees had received funding from a bank in the prior five years, compared with nearly half of white-owned firms with employees. Moreover, just 1 in 10 Back-owned sole proprietorships or independent contractors – which comprise a disproportionate share of all Black-owned businesses – had a recent borrowing relationship with a bank, compared with 1 in 4 white-owned non-employer businesses.

[3] For example, using PPP loan size as a rough indicator for the relative size of businesses, according to the most recent SBA data for the 2021 PPP program, the overall average loan size was $45,000, the average size of loans originated by banks was $62,000, and the average size of loans originated by CDFIs was less than $27,000. Likewise, according to SBA data for the 2020 PPP program, the overall average loan size was $101,000, the average size of loans originated by banks was $141,000, and the average size of loans originated by CDFIs and MDIs together was about $74,000.

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lenders have high funding costs, they can only remain viable if they have robust demand. If more capital is made available to CDFIs and MDIs, small businesses will have greater access to capital on responsible terms, in turn reducing demand for loans offered on predatory terms and, ultimately, making the predatory lending business less attractive to the investors that supply its capital.

Returning to the metaphor of the capital access landscape, the past year has provided clear and compelling evidence that measures making significantly more capital available to CDFIs and MDIs will transform the steep desert that small businesses must cross on their path to growth into a more fertile and flatter playing field.

V. CDFIs and MDIs: Paradoxically Underutilized and Undercapitalized

According to the most recent Annual Report by the CDFI Fund, as of year-end 2019, CDFIs as a group had just $93 billion in capital available for lending and equity investments. Moreover, the uneven distribution of capital across CDFIs meant that the median total financing capital for CDFIs was only $9 million.

Among MDIs, Black-owned MDIs in particular exhibit the paradox of being both highly effective and undercapitalized, with small business loans representing 21% of total assets vs. 18.6% for all FDIC-insured banks, yet their Tier 1 Capital was just 9.4% of total assets vs. 11.7% for all FDIC-insured banks, according to 2017 FDIC data.

VI. Recommended Actions

Congress and the Federal Reserve already have put in place key building blocks for addressing the problem of CDFIs and MDIs lacking the capital necessary to be significantly more impactful for small businesses. The work that is left to do is relatively straightforward and has three components. First, leverage the existing building blocks by establishing mechanisms that are exactly analogous to ones that already have proven to be effective in opening a flow of capital to CDFIs and MDIs. Second, optimize the complementary nature of traditional banks, on one hand, and CDFIs and MDIs, on the other, for the benefit of small businesses. Third, create an office within the Small Business Administration to lead the efforts geared towards maximizing the impact that CDFIs and MDIs can deliver.

1. Starting with leveraging existing methods and vehicles, Congress and the Federal Reserve should seize multiple opportunities:

    a. The Paycheck Protection Program Liquidity Facility, or PPPLF, is the facility that funds PPP loans. Based on reports, the facility is working and has created a tremendous multiplier effect for CDFIs and MDIs. The Federal Reserve should authorize the same facility as a funding source for all SBA 7(a) products – Express, Community Advantage and regular – and all CDFIs and MDIs should

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retain access to the PPPLF while being empowered to make all types of SBA 7(a) loans.

b. Expand the Community Advantage program, in three dimensions – length, loan amount and geographic reach.
    i. First and most important, as the only category of SBA loan in which Black and Latinx borrowers, combined, account for more than 10% of annual loan volume, CA has earned a longer statutory runway than 30 months, with us already approaching the midway point. It is strongly in the interest of the CA program's objectives and effectiveness for the program to encourage more participants and supporters, and to have the best opportunity to do so, it must enable potential participants to have a sound basis to include CA in their long-term planning.
    ii. Second, there needs to be an increase in the loan amount offered. Currently CA ranges from $50,000 to $250,000. The range must extend to, at minimum, $350,000.
    iii. Third, just as MDIs have no geographic restrictions in their SBA loan activity, prudent risk management strongly argues that CDFIs likewise should be unrestricted in their geographic diversification.

c. The guarantees provided by the newly re-established State Small Business Credit Initiative (SSBCI) are a powerful feature that cry out to be paired with low-cost sources of funds. The Federal Home Loan Bank is a source of very low-cost capital, and it already funds small business loans made by banks. However, currently Federal Home Loan Banks do not allow CDFIs to pledge small business loans as collateral, even if they are substantially guaranteed by programs such as SSBCI. Now consider that when capital is used to fund loans backed by guarantees, the capital can get multiplied and recycled on a more than 5-to-1 basis – meaning 1 million of capital can support about 5 million in guaranteed loans – and that ratio grows far higher when assuming loan repayment.

   It is clear that restrictions like the FHLB's not only represent an enormous lost opportunity for CDFIs to gain access to low-cost capital, but also amount to a significant underutilization of the power of the SSBCI and similar programs offering guarantees. This gap is ripe for Congress to close.

2. Turning to the second component of remaining work that I referenced, there is a clear opportunity to optimize the complementary nature of traditional banks, on one hand, and CDFIs and MDIs, on the other, for the benefit of small businesses.

   In the context of capital access for small businesses, the strengths of traditional banks in accessing and deploying low-cost capital in fewer, high-dollar transaction are highly complementary to the strengths of CDFIs and MDIs in deploying a high volume of

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responsibly-priced capital in relatively small amounts to small businesses that are less connected to financial ecosystems. The Community Reinvestment Act acknowledges this complementarity by providing incentives for non-minority-owned banks to partner with CDFIs and MDIs, yet even though traditional banks are awash in capital, the current incentives clearly are insufficient to motivate enough partnership activity on the part of banks. We therefore recommend two ways to enhance incentives aimed at this goal:

a. Within the CRA, both the amount and the certainty of CRA credit that non-minority banks can receive should be increased. This could mean banks receiving double or triple CRA credit for amounts they make available to CDFIs and MDIs, while gaining certainty that such activity "will", rather than "may", benefit their CRA examination.

b. And going beyond the CRA as a mechanism to incentivize action, non-minority banks should receive a tax credit, such as an investment tax credit, for providing capital to CDFIs and MDIs, whether through investments or other means.

3. Congress has taken multiple actions to support the CDFI and MDI ecosystem. It would be transformational for there to be an office within the Small Business Administration with a team that focuses on the following: 1) Supporting the growth of CDFIs and MDIs as SBA lenders; 2) Helping with both policy and regulatory matters for current and new members; and 3) Collaborations between SBA lenders and technology partners.

VII. Conclusion

Disparity in access to capital on responsible terms is a critical hurdle for small businesses, both in powering the nation's economic and jobs recovery and in narrowing the racial wealth gap. The intensive efforts to support small business through COVID made clear that in order for capital to benefit small businesses, and particularly underserved small businesses, it must be connected to the conduits that are highly effective in reaching them, which are CDFIs and MDIs. There is an exciting and clear opportunity for Congress and the Federal Reserve to make a major positive impact on the capital access landscape for small businesses. By establishing mechanisms that are exactly analogous to ones that already have proven to be effective in opening a flow of capital to CDFIs and MDIs, by recognizing and optimizing the complementary strengths and roles of traditional banks and CDFIs/MDIs in service of small businesses, and by establishing a dedicated office to support the CDFI and MDI ecosystem, Congress and the Federal Reserve can unleash positive forces that will deliver a multiplier effect on the capital that CDFIs and MDIs can deploy to small, underserved businesses, and make predatory lenders less economically viable through market forces.

Testimony of Robert James II
Chairman of the National Bankers Association

Before the House Small Business Subcommittee on Consumer Protection and Financial Institutions

"Examining the role of Community Development Financial Institutions and Minority Depository Institutions in Small Business Lending."

May 18, 2021

Chairwoman Davids, Ranking Member Meuser, Chairwoman Velazquez and members of the Subcommittee, good morning and thank you for this opportunity to testify on the role of CDFIs and MDIs in small business lending. It gives me great hope that one of this Subcommittee's first hearings of the 117th Congress is aimed at shining a light on the critical issue of access to credit for small businesses.

My name is Robert James II, and I am President of Carver Development CDE in Savannah, GA and Chairman of the National Bankers Association (NBA). The NBA is the leading trade association for the country's Minority Depository Institutions ("MDIs"). Our mission is to serve as an advocate for the nation's MDIs on all legislative and regulatory matters concerning and affecting our member institutions as well as the communities they serve.

Many of our member institutions are also Community Development Financial Institutions ("CDFIs"), and many have become banks of last resort for consumers and businesses who are underserved by traditional banks and financial service providers. Members of our association are on the front lines, trying to reduce the economic hardship in minority communities, which are historically the most vulnerable during any slowdown.

The House Small Business Committee and Chairwoman Velazquez have been instrumental in the inclusion of several provisions in multiple relief packages adopted during the course of the pandemic that ensure that MDIs and the small businesses and individuals they serve are not forgotten during this national emergency.

The creation of the Emergency Capital Investment Program and the $3 billion plus up of the CDFI Fund will make real transformational changes to institutions like those within the NBA and allow for more access to credit for individuals and small businesses in LMI communities. The NBA applauds the Congress for the adoption of these two important measures and very much look forward to continuing to work with you on measures to ensure that the resulting changes will transcend the pandemic and lead to material changes in the communities our members serve.

The situation is dire in our communities and we all need to do our part to ensure individuals in the middle of the health crisis, principally minority communities that have accounted for ~50% of the deaths, have equal access to credit and funding that can ensure a smooth recovery.

It is important to note that an average of 70 percent of minorities do not have a bank branch in their neighborhood, coupled with 94% of Black small businesses being sole proprietors that are typically unbanked or underbanked. Given the challenges faced by small businesses, especially minority-owned small businesses, it is imperative to assess which type of banks are best placed to provide access to capital for minority communities. National banks may not be fastest in reaching this constituency.

Minority-owned small businesses are the lifeblood of their communities. The pre-pandemic 1.1 million minority-owned small businesses employed more than 8.7 million workers and annually generating more than $1 trillion in economic output. Women own nearly 300,000 of them, employing 2.4 million workers. Despite their significance, these businesses face underlying challenges that make them vulnerable during normal times. In an assessment of the financial health of companies, the Federal Reserve Banks reported that minority-owned small businesses were significantly more likely to show signs of limited financial health—by factors such as profitability, credit scores, and propensity to use retained earnings as a primary funding source.

These companies were approximately twice as likely to be classified as "at risk" or "distressed" than nonminority-owned small businesses. That is particularly concerning, since the US Federal Reserve also indicates that distressed companies are three times as likely as healthy businesses to close because of a two-month revenue shock.

Limited access to credit is a compounding factor that hurts the underlying health of minority-owned small businesses. Based on data from the 2018 Small Business Credit Survey, the Brookings Institution found that large banks approve around 60 percent of loans sought by white small-business owners, 50 percent of those sought by Hispanic or Latinx small-business owners, and just 29 percent of those sought by Black small-business owners. Research has found that Black small-business owners were significantly more likely to be asked to provide more information about their personal financials—including personal financial statements and personal W-2 forms—when applying for small-business loans than white small-business owners were, even when controlling for credit score and business characteristics.

Black-owned businesses, overall, also tend to start out with far less capital, whether from investments or bank loans, than white-owned businesses do. And only 1 percent of Black business owners get a bank loan in their first year of business, compared with 7 percent of white business owners. Twice as many white business owners—30 percent of the total—use business credit cards during their first year compared with 15 percent of Black business owners. The COVID-19 crisis has compounded this issue: 42 percent of minority-owned small businesses responding to McKinsey's US Small Business Pulse Survey reported that obtaining credit was becoming increasingly difficult, compared with 29 percent of all respondents.

As an additional consideration, research suggests that the average minority-owned mature small business is 30 percent smaller than the average nonminority-owned mature small business. Our own analysis of the data provided by Minority Business Development Agency found that only 11 percent of minority-owned small businesses had employees, compared with 22 percent of nonminority-owned small businesses. And, when looking exclusively at small businesses that have employees—excluding sole proprietorships—we found that, on average, minority-owned small businesses had 32 percent fewer employees and 47 percent lower receipts than nonminority-owned ones did.

Traditionally, MDIs and CDFIs can be economic development engines due to their relative concentration in minority and low-income communities, and established relationships, especially in African American communities. Unfortunately, MDIs' small scale does not allow them to move fast enough, especially in times like these. With African Americans overrepresented by the health and economic crisis, but potentially underrepresented by the relief efforts, a more customize solution is required.

We saw this play out during all rounds of the Paycheck Protection Program (PPP). Congress devised the program as a mechanism to aid small businesses who suddenly found themselves forced to close during stay-at-home orders. A set of conditions that have favored larger businesses, including many banks only approving loans for existing customers, delaying the application of sole proprietorships, and not allowing enough time for institutions like ours to work through the application process with very small, under-resourced businesses, shut out many minority-owned businesses.

MDIs themselves have experienced a period of significant decline. Since 2009, nationally, the number of MDIs has dropped from 215 to 155 at the end of the second quarter of 2018. In addition, MDIs are far smaller than the average non-MDI bank. Compared to commercial banking institutions on average, they are very small; the largest institution has only $38 billion in total assets. Black and Hispanic MDIs have average assets of $245 million and $2.7 billion, respectively, compared to an average of $3.1 billion for all US banks.

A critical component of the resilience of the banking sector and its ability to assist minority businesses is the amount of Tier 1 Capital it has. Without sufficient Tier 1 Capital, not only are banks limited in the amount of deposits they can take in, but they are limited in their ability to weather loan losses. In this unprecedented economic shock, many financial institutions, especially those in underserved communities, will have increased delinquent loans. Although federal government efforts to stand up new loan loss reserves are important, standing up a new federal program with significant red tape will create a bottleneck when speed is necessary.

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

Passage of the Ensuring Diversity in Community Banking Act

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

Consumer Credit Enhancements

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

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

The NBA supports proposals to stabilize and protect small businesses during this crisis, in particular streamlined, U.S. government guaranteed loans or lines of credit that will allow small businesses to continue to make payroll. Our member banks are perfectly positioned to get this funding into the most vulnerable small businesses, but we need to cut through the SBA red tape to ensure we can make households available to our bank customers. The Treasury's State Small Business Credit Initiative has the potential to serve this purpose. Our Association strongly supports any initiatives that will require states that receive SSBCI funding to directly involve MDIs in the deployment of these resources to small businesses.

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

MDI Investment Tax Credit

The Association believes that a tax credit for equity investments in MDIs would further encourage all investors to make equity investments in our institutions. Given our institutions' track record of impact investments in the LMI communities we serve, we believe that our institutions' work confers enough of a benefit on LMI communities that an investment tax credit is warranted. We look forward to working with House and Senate sponsors to introduce MDI investment tax credit legislation this year.

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

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

Fully Supporting the Community Development Financial Institutions Fund

Establish a permanent set aside of 40 percent of CDFI Fund appropriations reserved for award, guarantee, and grant programs for minority lending institutions, and require reporting on such activities. Establish a new Office of Minority Community Development Financial Institutions to administer these funds led by a new Deputy Director of Minority Community Development Financial Institutions.

Federal Deposits in Minority Depository Institutions

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

Custodial Deposit Program for Covered Minority Depository Institutions

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

Troubled Asset Relief Program Resolution

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

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 businesses and communities in the country. While we commend Congress on its leadership to date in responding to the needs of our country's small businesses, we firmly believe much work remains to be done in supporting the MDI sector as we respond to the credit needs of the communities and small businesses that our member institutions serve that will disproportionately shoulder the burden of any economic downturn. In this regard, the NBA and its members banks look forward to working closely with the Committee and Subcommittee on workable solutions that ensures 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.

Testimony Before The Committee on Small Business
Subcommittee on Economic Growth, Tax and Capital Access
Walter L. Davis
Founding Member, Peachtree Providence Partners

"Examining the role of Community Development Financial Institutions and Minority Depository Institutions in Small Business Lending"

May 18, 2021

Introduction

Chairwoman Davids, Ranking Member Meuser, and Members of the Economic Growth, Tax and Capital Access Subcommittee, it is a pleasure to be with you today.

I come to you today with extensive senior executive leadership experience with some of the Nation's largest financial institutions, as a co-founder of the largest financial institution in the history of our country established and managed by African Americans, and as a co-founder of a strategic financial services firm, and, as one who has managed financial assets dedicated to investing in middle market, small and minority and distressed businesses and markets.

Specifically, I previously co-founded and served as the Chief Executive Officer of the African American founded and managed, CertusBank and its parent, CertusHoldings, Inc. Having reached the level of more than $2 billion in assets, CertusBank operated as the largest Bank in the United States founded and managed by African Americans.

Prior to my work at CertusBank, I served as an Executive Vice President at Wachovia Corporation, which is now Wells Fargo Bank. While there, I managed a $70 billion Retail Credit and Small Business portfolio.

I am currently the managing partner of Peachtree Providence Partners Holding Company. Peachtree Partners is a private investment and consulting firm that has an investment focus on small to middle market businesses and real estate. I am working with other business leaders and policy makers to spearhead efforts to ensure effective advocacy in Washington to support stronger incentive policies for the growth of African American and minority enterprises and entrepreneurs. Additionally, my advocacy looks for ways to expand investments in undeserved markets and communities, and African American and women-led startups including in the management of capital – which is so vital for these businesses and markets. Our efforts also include helping to support business opportunities for other minority and ethnic groups.

I come before you today as an African American businessman and entrepreneur committed to the economic growth of distressed communities. I have worked with every Administration on these issues over the past decade and a half. This includes the Administrations of President Obama, President Trump and now President Biden's Administration.

It is in this context that I would like to share some thoughts on the state of Community Development Financial Institutions (CDFIs) and Minority Development Institutions (MDIs), as well as suggest policies to improve the flow of capital into small businesses.

Role in Building Wealth in Underserved Communities

It is important to note that when we are speaking of CDFIs and MDIs, which include Black Banks, in the broader context, what we are speaking of is our national access-to-capital and financing infrastructure for minority businesses and entrepreneurs.

Quite often, these enterprises are doing and seeking to do business in the places that pose the greatest challenges and risks in the marketplace. These markets are often at the bottom of the economic ladder and separated significantly from the mainstream economy. These are the areas that are generally referred to as distressed or underserved markets and communities. These areas are reflected in what are now designated as Opportunity Zones.

The question is what makes these markets and communities economically distressed and underserved? The answer is clear: they lack access to sufficient capital investments and economic growth and activity. This lack of access to capital - which is critical to stimulate the kind of small business creation and entrepreneurship necessary to transform these distressed communities - is often at the core of the destructive social issues that arise from these communities as scholars and studies have shown for decades. The same applies whether we are talking about areas in Atlanta, Detroit, Washington, D.C., Houston, Los Angeles, Baltimore or rural Appalachia.

These communities do not have the same support or capital access system as the mainstream communities even though the businesses and entrepreneurs that exist or originate from there are the "ultimate" business risk takers. We admonish them to take advantage of what is the core of America- our unparalleled capitalist free enterprise system. But what happens when the Federal government does not ensure that the free enterprise system is there for them like it is the mainstream marketplace? What happens is this: The disproportionate economic devastation that we see in these communities persists. And these conditions are at the bedrock of much of the social dysfunction and yes, racial unrest that we are experiencing today.

Yes. I am saying that one of the vital needs of these markets and communities is economic growth and expansion. But such growth and expansion are impossible without a movement of a massively expanded number of sustainable Minority-owned and small businesses in these markets and communities. This solution is only possible with a much more robust capital and financing infrastructure for these laudable risk takers.

These communities are underserved by both the Federal government and the private marketplace in my opinion, especially when it comes to support for business formation and growth. Small businesses are the backbone of the U.S. economy. These businesses account for 99.9 percent of all businesses and employ almost 50 percent of the private workforce throughout the nation, according to the US Small Business Administration (SBA).

No business can move or grow without access to capital and customers. The role of the government in my view is to make certain that the proper infrastructure is there to ensure equitable access to capital.

During the pandemic, The Federal Reserve and Treasury did a laudable job working in tandem to make certain large financial institutions, especially big banks, were able to meet the needs of their large and mid-sized clients through mechanisms such as the Commercial Paper Funding Facility, the Main Street Lending Program and the Primary Dealer Credit Facility among others.

In this same period, we saw the SBA administer the Payment Protection Program and Economic Injury Disaster Loan facilities but without the same efficiency. We witnessed once again that black and brown businesses were shut out of the all-important flow of capital during these programs' initial stages. Adjustments were made and the calvary was called in to help get PPP loans to those most in need. In this instance, the calvary consisted of CDFIs and MDIs. CDFIs and MDIs handled the bulk of black and brown small business covid relief efforts, in addition 60 percent of CDFIs reported serving businesses beyond their pre-existing customer base. As their clients managed the health and economic effects of the COVID-19 pandemic, CDFIs responded with flexibility and assistance. It is important to acknowledge that the playing field was not even before the pandemic but CDFIs and MDIs are critical to helping these businesses survive during covid and will be critical as the delayed effects continue to wreak havoc on these important economic engines.

I would like to note that I am not against the market and policy support we provide for our large American businesses and mainstream marketplace. We badly need that. I am saying that as the Federal government we must be as dedicated to providing the needed financing for Minority businesses and distressed communities. CDFIs and MDIs are a critical part of that equation.

State of CDFIs

CDFIs have noted that their participation in Federal relief efforts was exacerbated by the lack of technological resources as only relatively large CDFIs have digital platforms for processing their loans. This is not unusual because of the business model of a number of these institutions, especially MDIs. Let's talk about Black Banks (those institutions where board and executive management are majority Black) and their role in supporting underserved communities. One hundred years ago, in 1921, 120 Black own banks were in existence across the U.S. Twenty years ago, the number had been reduced to 40, and today only 19 Black owned banks remain in operation. One might think consolidation and moves to achieve economies of scale drove this shrinkage.

However, there is only one of these institutions that has $1 billion in assets. In an economy where there are multiple trillion-dollar banks, this is inexcusable. I can talk more about this at another time. The systemic barriers to growth for the intermediaries we expect to serve the "least of these" need to be addressed. These banks don't get a pass on their CAMELS ratings by regulators, yet we expect them to make loans in the businesses and communities that have the highest risk. Don't get me wrong, we need these institutions to be strong, however we also need to take a close look at some type of regulatory relief. This lack of scale in these banks translates into lack of resources and ultimately a scaled down effort that is available to provide capital to the underserved.

Solutions

Dedicated Investment Vehicles

As a member of the Opportunity Roundtable, an organization I helped found to advocate for economic growth policies for the benefit of Black communities and businesses, I worked diligently with President Trump's Administration and Democratic and Republican Members of Congress to address the economic destruction COVID wreaked on Black businesses and communities. One of the initiatives we proposed was a program called the Designated Investment Vehicle program. This entailed the creation of a government infrastructure that would not only make it more efficient for minority businesses to gain access to lending capital. The target licenses were meant for the support of Investment Funds managed by representatives of these communities to ensure greater diversity at the equity fund level and to ensure greater access to equity funding by minority entrepreneurs. Such funds with the proper government support allows businesses to take the risks needed for economic growth of these markets.

Support for Emergency Capital Investment Program

The Emergency Capital Investment Program, which is administered by Treasury, is a novel idea that helps CDFIs and MDIs gain access to Tier 1 capital at favorable rates starting at 2.5%. One proposed feature of this program is that it allows these institutions that qualify for the capital to invest in Small Business Investment Corporations (SBICs). There are currently just over 300 SBICs licenses and less than 5 are in the hands of black-owned fund managers. This program could favorably increase the number of black-owned SBICs which could in turn make its way into minority-owned businesses and distressed communities. Allowing CDFIs and MDIs to not only lend to SBICs but invest as equity as well would allow for more opportunity for movement of capital in areas of need. Currently the SBA will not allow banks to invest capital received from ECIP into SBICs or SSBICs as equity due to a conflict with SBA regulation which disallows SBICs and SSBICs to receive direct or indirect equity investments from the federal government. Nevertheless, banks in receipt of TARP funds were allowed to invest in SBICs. Given the dire need of capital in the underserved market and particularly, Black communities, a provision should be made to allow CDFI and MDI banks to invest ECIP capital as equity into SBICs and SSBICs without restriction.

CDFIs and Opportunity Zones

I had the pleasure of working closely with Senator Tim Scott and his staff on the Opportunity Zone legislation, so I have a good idea of the spirit and intent. Congress should consider allowing CDFIs to receive equity investments as Opportunity Zone Businesses. Allowing CDFIs to take in equity capital from Opportunity Zone investors and in-turn lend it to entrepreneurs would allow for more capital to flow into minority businesses and communities.

Conclusion

Again, I appreciate the opportunity to address you this morning and look forward to any questions you may have.

Questions for the Record
Committee on Small Business
Subcommittee on Economic Growth, Tax, and Capital Access
Hybrid Hearing: Examining the role of Community Development Financial Institutions and Minority Depository Institutions in Small Business Lending
Tuesday, May 18, 2021, 10:00 A.M.

Question for Mr. James

How helpful was the forbearance with regard to TDR and CECL to your banks and to the industry as a whole? Additionally, how would you like to see the regulatory approach be for financial institutions by regulators going forward? For example, extending the forbearance period, etc.

Regulatory forbearance during the pandemic regarding Troubled Debt Restructuring (TDR) and Current Expected Credit Losses (CECL) methodology was extremely helpful to the banks represented by the National Bankers Association. Our members are Minority Depository Institutions, and largely serve communities that were hardest hit by the health and economic impacts of COVID-19. It was helpful to our banks to have maximum flexibility as we worked with our small business or other customers who were having difficulty, to help them restructure their obligations, provide payment forbearance, or make other accommodations that would minimize the economic harm of the pandemic. We would like to see a right-sized regulatory approach going forward, that takes into account historic lack of access to capital in communities we serve, and to many of our member institutions.

Credit Union National Association
CUNA

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President & CEO

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99 M Street SE
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May 18, 2021

The Honorable Nydia Velázquez
Chairwoman
House Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

The Honorable Blaine Luetkemeyer
Ranking Member
House Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

Chairwoman Velázquez and Ranking Member Luetkemeyer,

On behalf of America's credit unions, I am writing to express our views regarding the hearing entitled "Examining the role of Community Development Financial Institutions and Minority Depository Institutions in Small Business Lending." CUNA represents America's credit unions and their more than 120 million members.

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. Both Minority Depository Institution (MDI) and Community Development Financial Institution (CDFI) credit unions form an integral part of the credit union movement and enhance our ability to serve underserved groups.

As of May 14, 2020, there were 324 CDFI credit unions (more than two times the number of CDFI banks), representing nearly 30% of all CDFIs and serving nearly 12 million members.[1] In addition, as of December 31, 2019, there were 521 MDI credit unions (over three and a half times the number of MDI banks),[2] representing 10% of all credit unions and serving 4 million memberships.[3]

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.

That said, 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.

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[1] CDFI Fund, "List of Certified Community Development Financial Institutions (CDFIs) with Contact Information as of May 14, 2020," available at https://www.cdfifund.gov/programs-training/certification/cdfi/Pages/default.aspx
[2] , Ibid.
[3] National Credit Union Administration (NCUA), Credit Union Call Report, Mid-Year 2019, CUNA calculations and FDIC. Following the NCUA's definition, we use the term "Minority Depository Institution" for credit unions that have reported that over 50% of their current membership, potential membership, and board members are Hispanic American, Black American, Asian American, Native American, or a combination of multiple groups. We include both federally chartered and state-chartered credit unions.

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.* Thank you for the opportunity to share our views.

Sincerely,

Jim Nussle
President & CEO

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NAFCU
National Association of Federally-Insured Credit Unions

May 17, 2021

The Honorable Sharice Davids	The Honorable Dan Meuser
Chairwoman	Ranking Member
Economic Growth, Tax	Economic Growth, Tax
and Capital Access Subcommittee	and Capital Access Subcommittee
Committee on Small Business	Committee on Small Business
U.S. House of Representatives	U.S. House of Representatives
Washington, D.C. 20515	Washington, D.C. 20515

RE: Tomorrow's Hearing, "Examining the role of Community Development Financial Institutions and Minority Depository Institutions in Small Business Lending"

Dear Chairwoman Davids and Ranking Member Meuser:

I am writing on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) in conjunction with tomorrow's hearing to examine the role of Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs) in small business lending. As you are aware, NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 124 million consumers with personal and small business financial service products.

CDFIs play an important role in the economy with their focus on the community and those most in need. A number of credit unions are CDFIs and MDIs and have been able to help underserved communities hardest hit by the COVID-19 pandemic. We are pleased to see the strong support from Congress for helping CDFIs and MDIs during the ongoing COVID-19 pandemic both in funding support for CDFI and MDI programs and access to important Small Business Administration (SBA) programs, such as the provisions for CDFIs and MDIs with the Paycheck Protection Program (PPP). We urge the Committee to continue this support moving forward.

The credit union commitment to helping members and the underserved has been regularly demonstrated during the pandemic. Credit unions have been on the frontline, working to ensure their members stayed afloat financially during the pandemic, with programs ranging from skip pays to personal loans. Additionally, during the first round of the PPP, credit unions were able to get desperately needed funds to many Main Street businesses that had been turned down by larger institutions. In many instances, these business owners joined the credit union solely because they were the only institutions working to get small dollar loans approved. According to a NAFCU survey, 87 percent of NAFCU members reported providing PPP loans to new members and businesses that were turned away by other lenders and came to their credit union to apply for a PPP loan. Moreover, compared to other types of lenders, credit unions disproportionately helped the smallest of small businesses. An analysis of the SBA's PPP data from the first two rounds shows that credit unions made loans in amounts much lower than the national average, with the credit union average PPP loan approximately $50,000. Furthermore, a full 70 percent of credit union PPP loans went to businesses with less than five employees.

The Honorable Sharice Davids, The Honorable Dan Meuser
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The pandemic has also shown that credit unions need additional tools to help underserved communities beyond the short-term bridge provided by the PPP. While increasing the scope of other SBA programs will help with the recovery, we need to ensure that small businesses have access to as many potential sources of capital as possible. With that in mind, we believe that Congress should consider legislation to exclude credit union member business loans made in response to COVID-19 relief from the credit union member business lending (MBL) cap, such as H.R. 1471, the *Access to Credit for Small Businesses Impacted by the COVID–19 Crisis Act of 2021*, introduced by Representatives Brad Sherman (D-CA) and Brian Fitzpatrick (R-PA).

We thank you for the opportunity to share our thoughts on the importance of support for community development institutions as your Subcommittee examines the role they play in the economy. Should you have any questions or require any additional information, please contact me or Lewis Plush, NAFCU's Associate Director of Legislative Affairs, at 703-842-2261.

Sincerely,

Brad Thaler

Brad Thaler
Vice President of Legislative Affairs

cc: Members of the House Small Business Subcommittee on Economic Growth, Tax and Capital Access

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