ICBA INDEPENDENT COMMUNITY BANKERS of AMERICA®

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The Critical Role of CDFIs and MDIs in Underserved Communities

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

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

Minority Depository Institutions and Community Development Financial Institutions

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

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

Initiatives to Promote and Strengthen CDFIs and MDIs

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

Ensure the Emergency Capital Investment Program Fulfills its Potential

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

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

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

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

New Programs

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

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

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

Financial technology

According to FDIC data, 49.5 percent of unbanked households and 83.2 percent of underbanked households have regular access to a smartphone, while 28.5 percent of unbanked households and 76.1 percent of underbanked households have regular access to the internet. Smartphone and internet access can and will continue to expand with the support of targeted policy initiatives. Younger people of all demographics are already predisposed to use mobile banking and mobile payments, according to the Federal Reserve's most recent survey on Consumers and Mobile Financial Services.

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

Closing

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