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: "An Unprecedented Investment for Historic Results: How Federal Support for MDIs and CDFIs Have Launched a New Era for Disadvantaged 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. Trust and cultural understanding are the core value propositions such institutions offer. These same qualities also make MDIs effective in reaching the unbanked, which requires the ability to overcome barriers to trust.

Initiatives to Promote and Strengthen CDFIs and MDIs

Congress should enact legislation to promote and strengthen MDIs and support their reach into underserved communities as well as their ability to continue serving their unique customer bases. 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 Chairwoman Waters for her 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. Many of these are included in the Ensuring Diversity in Community Banking Act, which is discussed below.

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.

Legislation Before the Committee Today

Below are ICBA's views on legislation before the committee today.

Ensuring Diversity in Community Banking Act (Rep. Meeks). ICBA strongly supports this legislation which would create programs to promote investments, technical assistance, mentorship, and collaborative relationships between minority banks and community banks at large. In particular, this 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. ICBA supported this bill last Congress when it passed the House and welcomes its reintroduction.

Expanding Opportunity for Minority Depository Institutions Act (Rep. Beatty). ICBA supports this legislation which would create a mentor-protege program at Treasury for larger banks to mentor MDIs and community banks under $2 billion. This program will help MDIs and community banks gain operational expertise and experience, ultimately helping them better serve their communities and customers over the long term and across business cycles. ICBA supported this bill last Congress when it passed out of the committee.

CDFI Bond Guarantee Program Improvement Act (Rep. Cleaver). ICBA supports this legislation. Reducing the minimum guarantee amount may make the program more available to smaller CDFIs.

Federal Home Loan Banks' Mission Implementation Act (Rep. Torres). ICBA supports the goal of this legislation to broaden types of collateral that may be pledged for advances. We are concerned about provisions of the legislation would increase the mandatory amount of Affordable Housing Program investments by each FHLB from 10 percent to 20 percent of net earnings as well as the creation of a new Community Development Fund, which would be funded by an additional 10 percent of net earnings. Taken together, these provisions would appropriate 30 percent of net earnings, a 200 percent increase. While we could support a modest increase for these purposes, a sharp increase of 200 percent could cause drive higher costs for advances and other services for member banks and thereby divert resources that they dedicate to their communities.

CDFI Certification Consultation Act. ICBA opposes this legislation as it would add another layer of review and further complicate the certification process. This would contravene efforts to simplify and streamline certification, which will result in more CDFIs supporting their communities.

Advancing Technologies to Support Inclusion Act. ICBA supports the legislation's efforts to address CDFI and MDI technology capabilities and capacity and provide them with additional funds to enhance or adopt technologies that improve their operations and customer experience.

Supporting the Creation of Diverse and Mission-Driven Community Financial Institutions Act. ICBA strongly supports this legislation which would establish a pilot program to provide competitive grants for the creation of minority depository institutions and community development financial institutions. Such grants would have a positive impact on underserved communities.

Understanding Community Financial Institutions' Impact in Underserved Communities Act. ICBA believes that the CDFI Fund report required under this legislation would provide useful information. We would oppose, however, any additional reporting requirements for CDFIs that would divert resources from serving their communities.

Promoting and Advancing Communities of Color Through Inclusive Lending Act (Waters). This bill includes a number of provisions included in bills discussed above. We ask that this committee consider the community bank views of these provisions.

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.