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On Behalf of the National Bankers Association

"Promoting the Health of the Banking Sector: Reforming Resolution and Broadening Funding Access for Long-Term Resilience"

Before the House Financial Services Subcommittee on Financial Institutions

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Chairman Barr, Chairman Hill, Ranking Member Foster, Ranking Member Waters and members of the Subcommittee, good afternoon and thank you for this opportunity to testify on "Promoting the Health of the Banking Sector: Reforming Resolution and Broadening Funding Access for Long-Term Resilience." The timing of this hearing is crucial as the Trump administration weighs financial regulatory reform. The Congress should play a major role in this process, and we believe that today's hearing is important as you explore regulatory reforms that would support a healthy banking sector for institutions of all sizes. These topics include improving access to liquidity and capital; right-sizing the capital framework for community banks and mid-sized institutions; streamlining capital-raising efforts; and a more functional process for regulatory approvals of bank M&A.

My name is Robert James II, and I am President of Carver Financial Corporation, parent of Carver State Bank in Savannah, Georgia and BHM Bank in Birmingham, Alabama. I am also the Immediate Past 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 advocate on behalf of mission-driven community banks, ensuring that the voices of MDIs are heard in legislative and regulatory matters that affect both our member institutions and the communities they serve.

Like Carver, many of our member institutions are also Community Development Financial Institutions ("CDFIs"). As MDIs and CDFIs, these institutions often serve as financial lifelines for consumers and businesses overlooked by traditional banks and mainstream financial service providers. Our members stand on the front lines, working tirelessly to alleviate the economic hardships that disproportionately affect historically underserved communities. Because of this unique role, we firmly believe that our banks are best positioned to deliver financial services and to help communities address the systemic and economic challenges that have long placed them at a disadvantage.

MDIs and CDFIs are a vital segment of the American financial system. For decades, these mission-driven institutions have been engines of economic growth and stability, particularly in low- and moderate-income rural, urban, and tribal communities. Their deep-rooted relationships, built through generations of dedicated service, position them as trusted partners in communities often overlooked by mainstream finance. Our banks play a critical role in providing essential banking services to households that are disproportionately unbanked or underbanked – a reality underscored by the Federal Reserve's 2024 Report on the Economic Well-Being of U.S. Households.

CAPITAL
Tier 1 Capital, or the equity invested in a bank, is the most critical component of the resilience of any bank, and it is what allows banks to grow and scale. While our member banks maintain more than adequate capital from a ratio perspective, the total amounts of capital available have led to them being undersized in terms of the needs and demands of the communities they serve. With capital also comes the need for deposits to better leverage the capital for lending in communities.

The House Financial Services Committee has been very supportive of several provisions over the past few years that ensure that community lenders and the small businesses and individuals we serve are not forgotten. The creation and implementation of the Emergency Capital Investment Program (ECIP) and the $3 billion increase in funding the CDFI Fund received has helped banks like many of those within the NBA scale up and provide more access to credit for individuals and small businesses in communities across the country.

There are several pieces of legislation before the Committee, and one being considered today, we believe will advance the NBA's goal of preserving and protecting our institutions. The measures, taken together, will provide opportunities for these institutions to not only survive but thrive.

"The Community Bank Capital Flexibility and Growth Act of 2025," by potentially lowering the statutory range for the community bank leverage ratio from 8-10 percent to 6-8 percent, this measure provides significant flexibility to our member institutions to more efficiently provide small business, auto and mortgage loans to a larger swath of borrowers without increasing regulatory risk for our member institutions. This measure also has the potential to increase the number of deposits our institutions can take on, further enhancing their ability to deploy capital.

"***Promoting and Advancing Communities of Color Through Inclusive Lending Act.***" This legislation builds on the Committee's aforementioned work to support MDIs and CDFIs and authorizes $4 billion in additional capital, grants, technology support, and other reforms to increase affordable lending in underserved communities, including to small businesses and minority-owned businesses. The benefits of this expanded funding have already been demonstrated by the impact the capital from ECIP and the CDFI Fund has had in rural and urban communities across the country.

DEPOSITS

The impact of better capitalized MDIs and CDFIs will be limited without access to stable and readily accessible deposits. Deposits provide resources our institutions deploy in the communities they serve, allowing small businesses to thrive and providing consumers with access to affordable borrowing options. We believe expanding depository opportunities for community banks requires an "all of the above" approach, including regulatory changes, government funding, and partnerships with fintechs, larger financial institutions and other third-parties.

As banking business models evolve and fintech and other third-party partnerships begin to play a more prominent role in the lives of community banks, the law governing how banks accept and categorize core deposits should evolve with it. Unfortunately, virtually any third-party involvement in connecting banks to deposits result in the deposits being categorized as "brokered" – bringing additional supervisory scrutiny and potentially higher deposit insurance premiums – even if they are otherwise core deposits. Many of our member institutions have limited branch networks, so having the flexibility to partner with fintechs or other partners could help to diversify our institutions' deposit networks. There are several measures before this Committee that merit enactment by Congress, including the following.

"H.R. 3234, amend the Federal Deposit Insurance Act to modify the amount of reciprocal deposits of an insured depository institution that are not considered to be funds obtained by or through a deposit broker." This bill, sponsored by several members of this Subcommittee including the Chairman, would replace the existing rigid limitations on non-brokered status for reciprocal deposits with a more tailored system determined by a bank's total liabilities. The tailored system proposed by the legislation would remove the current $5 billion hard cap on non-brokered treatment for reciprocal deposits. MDIs and CDFIs would especially benefit under this revised system, allowing them to rely on reciprocal deposits to a greater degree. The lower caps for portions of a bank's liabilities above larger amounts would apply more stringent, yet not onerous, restrictions. When high-value customers entrust our member institutions with large deposits, reciprocal deposit solutions allow our banks to protect their funds by providing access to greater FDIC insurance coverage while keeping the dollars invested locally. These are relationship-based funds, not typical brokered dollars chasing yield. They help us provide loans to entrepreneurs, invest in infrastructure, and serve the needs of local families.

"Community Bank Deposit Access Act of 2025." This discussion draft amends the Federal Deposit Insurance Act to establish that reciprocal deposits of an insured depository institution are not considered to be brokered deposits as long as the total amount does not exceed 20 percent of an institution's total liabilities. This applies to institutions under $10 billion in assets.

Federal Deposits in Community Banking Institutions. Through the Minority Bank Deposit Program (MBDP), the Bureau of the Fiscal Service supported the strengthening and preservation of minority-owned banks, women-owned banks, and credit unions that serve low-income communities.

The NBA supports reconstituting this program for community banks writ large as the program would significantly help participating banks and financial institutions receive exposure, technical training and networking with the goal of expanding capacity and accelerating growth as well as to learn from financial market leaders about capital management, compliance, risk management, technology, and more.

The program is underutilized due to current rules that require federal agency deposits in small banks be fully collateralized, which has proven an insurmountable hurdle to implementation, as doing so locks-up capital that could be mobilized for lending. Clarifying that any such deposits may also be insured, including through reciprocal deposits, could be transformational. Doing so will ensure that any such deposits do not pose any financial risk to the 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 Community Development Financial Institutions. Establish a new program whereby the Treasury Department will deposit into CDFIs 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 CDFIs. This initiative will help mobilize stable deposits into CDFIs, which will have a multiplier effect on the communities they serve without creating any new exposures or loss risks for the Treasury Department.

COMMUNITY BANKS POST SVB

As we saw with the collapse of Silicon Valley Bank (SVB), when banks fail abruptly, small businesses are left scrambling to figure out how they're going to pay their hardworking employees if they lose any money, while other businesses quickly transfer their funds from trusted community banks to large institutions. In worse cases, such as the First National Bank of Lindsay, small businesses lose funds through no fault of their own, but simply because their bank is too small to qualify for emergency protections. This is not fair to small businesses or their workers, and it undermines community banks while concentrating even more power in larger, and in our view more disconnected institutions. Small businesses need reliable banking services, and they should be able to work with local financial institutions in their communities.

Post-SVB, the NBA has supported efforts to maintain confidence in the banking system and provide additional stability to regional and community banks by increasing the level of FDIC insurance coverage for small business accounts. We have previously supported efforts to create a permanent version of the Transaction Account Guarantee (TAG) program offering up to $10 million in deposit insurance for non-interest-bearing transaction accounts primarily used by businesses for payroll and other operating expenses. We have also advocated for deposit insurance coverage to be increased on interest bearing accounts as well, but with no corresponding increase in the premiums for institutions under $3 billion in total assets.

Efforts to modernize federal deposit insurance have wide bipartisan support, including from Vice President J.D. Vance, who introduced a bill last Congress to reform deposit insurance when he was in the Senate. Other Republicans have introduced similar bills to expand deposit insurance or improve FDIC's emergency tools, including Sen. Bill Hagerty (R-TN), Sen. Mike Braun (R-IN), and former Rep. Blaine Luetkemeyer (Vice Chair of this subcommittee). Additionally, in a speech this year before the American Bankers Association, Treasury Secretary Scott Bessent emphasized the Department's plan to work with Congress to explore deposit insurance reforms, including expanding it to cover more business payment accounts.

There are several other pieces of legislation before the Committee or introduced that are worthy of serious consideration. These include:

"Failing Bank Acquisition Fairness Act (Lynch)." This discussion draft amends the Federal Deposit Insurance Act to restrict large financial institutions holding more than 10 percent of U.S. deposits from acquiring failed banks if smaller institutions submit qualifying bids.

"Employee Paycheck and Small Business Protection Act." This bipartisan bill would expand deposit insurance coverage for business accounts, so entrepreneurs are protected if their depository institution fails. We support the measure's approach to allowing regulators to utilize a data and analysis-based approach to increasing the deposit and share insurance threshold for business payment accounts from $250,000 to a higher dollar threshold. This balanced approach will, in our view, provide small businesses with certainty and limit regulatory downside risks.

FINANCIAL REGULATORY REFORM

The Trump administration has made financial regulatory reform a major policy priority. While the details are to be determined, we would like to reiterate our position that this effort should be inclusive of all financial institutions, and the Congress must play a role in the process. We additionally urge the administration and Congress to strike the appropriate balance between safety and soundness on the one hand, and consumer access and affordability, with particular sensitivity to the impact on marginalized communities, on the other.

We support the administration's commitment to fortifying our financial institutions, thereby ensuring safety and soundness in the financial system. However, any proposal that does not take community banks into full consideration could have a myriad of sweeping, unintended consequences. It has been the experience of our member institutions and many community banks that federal regulators, in the execution of their supervisory responsibilities, have not adhered to the underlying policy policies set forth by previous administrations and Congress.

We believe it is important that prudential regulations remain consistent with our policy goals, including closing the homeownership gap and supporting small businesses as the backbone of our economy. Otherwise, continued pressure may further push financial services and risk outside the banking system where there is less regulation, supervision, and oversight, making the financial system less able to address these challenges, and ultimately less safe.

Treasury Secretary Bessent has outlined his views very clearly in a speech to the American Bankers Association earlier this year and we largely support these views. Among other things, the Secretary noted the fact that "in the past some regulatory actions have unduly burdened community banks or erected barriers to entry" and that "other regulatory actions have entrenched the dominant position of the largest banks." He noted that he and his team "will devote the necessary time and attention to the quite technical, substantive aspects of regulatory reform," noting there will be a new emphasis on "tailoring" regulation to fit the size and relative risk of banks being examined.

He also emphasized a desire "to re-focus bank supervision on material financial risks" which he described as "perhaps the single most important reform" as opposed to process risks. He further stated that there was an undue focus "on management and other governance matters" including regulators' expectations relating to internal controls.

Given the seeming alignment between the Secretary's views and the context of this hearing, we would like to highlight several areas where Congress and the administration can align to make material and lasting changes for community banks across the country.

Fully Supporting the Community Development Financial Institutions Fund

We recommend establishing a permanent requirement that 40 percent of CDFI Fund appropriations be reserved for awards, guarantees, and grant programs specifically supporting minority lending institutions, with robust reporting to ensure transparency and accountability. The CDFI Fund enjoys strong bipartisan support, and dedicated, ongoing funding is essential to sustaining the mission-driven work of these institutions.

The NBA supports legislation that would enable the CDFI Fund to expand its tools by providing resources for the purchase of loans originated by CDFIs, loan participations or interests, as well as guarantees, loan loss reserves, and other forms of credit enhancement to strengthen CDFI liquidity. Such a program would be transformational, significantly bolstering the financial capacity of CDFIs and, in turn, amplifying their impact in the communities they serve. Research consistently shows that minority lending institutions serve low- and moderate-income communities, persistent poverty counties, and other underserved populations at higher rates than their counterparts – making this investment both equitable and effective.

The Senate sponsor of the bill, Sen. Daines (R-MT) notes, *"CDFIs play a critical role in helping hardworking families in Montana, especially those in rural or underserved communities, gain access to the opportunities they need for financial success. I'm proud to join my colleagues in introducing this bipartisan amendment that will help boost economic development and ensure transparency surrounding the operations of the CDFI fund."*

Revising Data Collection, Recordkeeping, and Reporting
Community banks, especially CDFI banks, have many federally mandated reporting requirements. These requirements are difficult for small institutions to deal with given the lack of technological resources to defray the costs associated with compliance. We believe strongly that regulators should take into consideration the size and capabilities of institutions in our segment of the banking industry and allow for exemptions or offsetting resources for smaller institutions. Our member banks work with customers that are often financially fragile and in communities frequently targeted by predatory lenders. We have seen how predatory practices can devastate a community and their residents. We firmly believe, however, that a fair regulatory system should: (1) explicitly recognize the dissimilarities in capacity and systemic risk posed by different institutions based on size and scope of activities; (2) recognize that flexibility is important in serving distressed and underserved communities, as well as moving un- and under-banked populations into the economic mainstream; and (3) maintain effective consumer protection. We believe these goals are not antithetical to ensuring safety and soundness in the banking system and can be better achieved without duplicative and overly taxing data collection.

The NBA applauds the Committee for its thoughtful consideration of these critical measures and looks forward to continued collaboration on legislation that ensures lasting, meaningful change for communities most affected by economic inequity. Our shared goal must be to foster inclusive growth that strengthens not only underserved communities but the broader American economy.

We strongly support legislation that empowers MDIs, CDFIs, and other community banks to expand their capital bases, strengthen deposit growth and retention – particularly among mission-driven institutions – and reform regulatory processes that too often hinder efforts to bring underserved individuals and businesses into the financial mainstream.