Open Statement of Robert James II
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House Select Committee on Economic Disparity and Fairness in Growth
Roundtable Discussion
"America's Unbanked and Underbanked"

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Chairman Himes, Ranking Member Steil, and members of the Select Committee, good morning and thank you for this opportunity to discuss solutions for including more Americans in the mainstream banking system. My name is Robert James II, and I am President of Carver Financial Corporation, holding company for Carver State Bank in Savannah, GA, and Chairman of the National Bankers Association. The NBA is the leading trade association for the Minority Depository Institutions and our members are focused on eliminating the racial wealth gap. Our members include Black, Hispanic, Asian American, Pacific Islander, and Native American banks across the country that are working to help low and moderate-income communities who are underserved by traditional banks and financial service providers.

For nearly a century, our Association and its members have been working to reduce the numbers of the unbanked and underbanked in the American economy. MDIs are critical economic development engines in minority and low-income communities, particularly due to our trusted relationships in these communities. Our banks provide basic banking services to communities that are more likely to be unbanked or underbanked, but our impact is limited due to our small size, both in total assets and in number of institutions. Racial minorities, especially Black and and Hispanic, are more likely to be unbanked and underbanked according to a Federal Reserve Report on the Economic Well-Being of U.S. Households in 2020. MDIs can be a solution to this problem if our banks can scale up. Several studies have shown that minorities, especially Black and brown Americans, are more likely to have bank accounts and access to fair and reasonably priced mortgage and small business loans if there is an MDI in their neighborhood. [Broady et al, "An analysis of financial institutions in Black-majority communities: Black borrowers and depositors face considerable challenges in accessing banking services," Brookings (2021); Florant et al, "The case for accelerating financial inclusion in black communities," McKinsey & Company (2020); Barth et al, "Minority-Owned Depository Institutions: A Market Overview," Milken Institute (2019)]. Strengthening the MDI sector will allow us to leverage our positions of trust in communities of color and make significant reductions in the number of unbanked or underbanked minority Americans.

The overall number of MDIs has declined by 33 percent since 2008, and among Black-owned MDIs, the problem is especially pronounced as Black-owned banks have suffered from many of the same conditions and structural lack of access to capital as the Black community as a whole. Of the 4,377 total insured commercial banks in the U.S., only 144 are MDIs, and only 17 of those are owned by Black people. Prior to the Great Recession of 2008-2009, there were 41 Black-owned commercial banks in the United States. Like most community banks, MDIs primarily make loans secured by real estate. When many minority borrowers struggled to repay their loans, these struggles were exacerbated by low property values in their underlying collateral. The legacy of redlining and associated chronic undervaluing of real estate in Black communities created lower asset values for minority banks' collateral, which led to massive write-downs of bank collateral. Without access to capital markets or large pools of high-net-worth investors, many Black MDIs were forced to exhaust their capital reserves, failing as a result.

As mentioned earlier, MDIs only make up 3 percent of all American banks, and Black-owned MDIs only 0.4 percent. When looking at total bank assets, the disparity is even more stark. As of the second quarter of 2021, Black banks held about $6 billion in total combined assets, as compared to over $22 trillion in total assets in the U.S. banking system as a whole. Put another way, Black-owned banks only control 27 thousandths of one percent of total bank assets in the United States.

In addition to historic, systemic inequity, we are also grappling with unprecedented, seismic changes in the financial services system, including the proliferation of nonbank financial technology providers and advent of cryptocurrency and blockchain technology. Our banks are working overtime to expand access to basic financial services among underserved minorities, while keeping up with new technologies that can make our efforts more effective and impactful. Well thought out partnerships between MDIs and fintech companies may actually help our banks compete at a higher level and provide access to more relevant services to unbanked and underbanked populations. For that reason, the NBA has launched an innovation committee to build practical partnerships between our banks and vetted fintech companies to help us make more products and services available to our communities at scale. At the same time, we must remain vigilant regarding financial technology providers who may bring offline predatory practices into a digital environment.

There are several issues that must be addressed to solve the problems of the unbanked and underbanked. When we think of unbanked or underbanked Americans, we often think of consumers who fall victim to predatory payday lenders or who pay onerous fees for check cashing services. Our members know that the population of the unbanked and underbanked often includes others, including small business owners. The ongoing damage caused by the pandemic shone a bright light on the effect being underbanked has on minority small businesses. For example, Black-owned businesses nationwide found it difficult to access Paycheck Protection

Program ("PPP") loans. According to the Federal Reserve's 2021 Report on Firms Owned by People of Color, Black-owned firms were about half as likely as White-owned companies to receive all the PPP financing they sought, even with good credit scores. In the early months of the pandemic, the number of Black and Latinx business owners in the U.S. fell by 41 percent and 32 percent, respectively, while the number of White business owners fell 17 percent, per an August 2020 report by the Federal Reserve Bank of New York.

MDIs are trusted providers of financial services in minority communities. Among NBA members, most of our lending and depository services are provided to underserved minorities or organizations that serve these communities. For example, at my bank, over 80% of our PPP loans were made to Black-owned businesses, and nearly all the remainder were to nonprofit organizations serving minority communities. Despite the trust our members enjoy in the communities we serve, our overall sector is small in number and in asset size, which limits our ability to fully address the issues facing unbanked and underbanked Americans in minority communities.

The NBA is focused on helping our members become an even more effective conduit for getting underserved minority Americans into the traditional financial services system. In that vein, the NBA is focused on helping MDIs in the following ways:

1. Capital – Assisting our banks in accumulating more equity capital to scale and deliver more impact to their communities
2. Collaboration – Providing a platform for our banks to collaborate with one another and our allies to deliver more and better financial services to communities
3. Capacity – Delivering resources to improve our members' operational efficiency and effectiveness, regulatory excellence, and profitability
4. Communication – Advocating for legislative and regulatory policies that strengthen minority banks and their communities.

In additional service to the communities served by MDIs, this year, the NBA created the National Bankers Community Alliance ("NBCA"). The NBCA, a 501(c)(3) charitable nonprofit, will provide programs and services to support MDIs and the communities they serve to help close the racial wealth gap. The NBCA is focused on four pillars to provide minority-owned banks with the data, training, and resources necessary to better serve their communities. The four pillars are:

1. Financial Wellness – Delivering innovative financial programs, training, and services to traditionally excluded and underserved households, small businesses, and nonprofits to support asset accumulation and sustainability.

2. Technical Assistance – Providing small busines training that builds the capacity of entrepreneurs to participate in the economic mainstream.
3. Research & Impact Assessment – Leveraging market level social and economic impact data that identifies the root causes of disparity and informs the development of responsive products, services, and policies.
4. Capital Aggregation & Collaboration – Supporting collaborative capital approaches that support large-scale, high impact projects and advance operational efficiencies through shared resources.

As our Association and membership continue to pursue multi-pronged efforts to reduce the number of unbanked and underbanked Americans, we look to our policy and regulatory partners for assistance in the following ways:

1. Equitable and Simple ECIP Implementation – MDIs that were eligible applicants for the Treasury Department's Emergency Capital Investment Program ("ECIP") are eagerly awaiting Treasury's decision. The ECIP promises to inject significant amounts of Tier One capital into our institutions, which will allow them to make critical investments in technology and human infrastructure needed to expand lending and other financial services to underbanked communities. Congress should encourage Treasury to ensure that MDIs receive their fair share of these resources, and to adopt straightforward investment

terms that will not dissuade private, mission-driven or market-driven investors from providing additional capital to our sector.

2. Hold Large Technology Providers Accountable – A critical component of the resilience of the banking sector and its ability to assist underserved communities is the ability to adapt technologically. A host of different factors are intersecting to change the banking industry. Like most community banks, MDIs are heavily reliant on a handful of large technology companies that provide core processing services, or the technological systems of our operations. These companies have no incentives to help us adapt to the changing competitive landscape: we are consigned to long-term contracts with punitive early termination provisions, cannot easily plug in modern outside solutions that will make it easier for our customers to do business or to secure their data, the fundamental technology of many of these systems is antiquated and leaves us incapable of making rapid changes, and because we are often the smallest clients of these giant firms, we receive the lowest priority for service. Our bank employees are constantly training and monitoring our internal systems, but we do not get the latest and best technology from the big core processors.

3. Ensure Predatory Practices Do Not Leak Into Fintech Companies – Fintech companies promise innovation and many focus on unbanked and underbanked communities. Congress and the regulatory sector can should monitor these companies and their practices to ensure that predatory practices and usurious interest rates do not proliferate in digital environments.

We need to invest more in technology and the right people to implement it, but these investments can result in criticism when our earnings don't meet regulatory expectations. We can also find ourselves in situations where the local or regional examiners impede our ability to implement new tech solutions.

The National Bankers Association and our members look forward to working closely with the Select Committee to scale up our banks so that we can play an even greater role in reducing the number of unbanked and underbanked Americans, and ultimately eliminate the racial wealth gap.