



National Bankers Association Statement for the Record
The House Financial Services Subcommittee on Diversity and Inclusion's
hearing entitled:

“Access Denied: Challenges for Women- and Minority-Owned
Businesses Accessing Capital and Financial Services During the
Pandemic”

July 8, 2020

Chairwoman Beatty, Ranking Member Wagner and members of the Subcommittee, thank you for the opportunity to submit a statement for the record on the Subcommittee's hearing “Access Denied: Challenges for Women- and Minority-Owned Businesses Accessing Capital and Financial Services During the Pandemic.” The National Bankers Association (NBA) represents the country's Minority Depository Institutions (MDIs). Our institutions bank the communities that are the most vulnerable in ordinary economic circumstance but are even more exposed to the coronavirus epidemic – both physically and economically. Minority Depository Institutions take pride in providing financing for small businesses and nonprofits in LMI communities. Small business loans and micro-loans are the lifeblood of many small businesses in LMI areas. There is ample evidence that minority-owned small businesses have restricted financing choices. According to the findings of an article published in the Journal of Consumer Research, minority business owners are presented with more loan requirements and offered less help to fulfill them during their preapplication (loan inquiry) interactions with banks. These challenges could make them less likely to continue their financing application due to a negative perception of the process and its outcome.

Furthermore, an average of 70 percent of minorities do not have a bank branch in their neighborhood, coupled with 94% of AA small businesses being sole proprietors that are typically un/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. Survey evidence has demonstrated that Black banks are prominent in predominantly Black communities and Hispanic banks are prominent in predominantly Hispanic communities. Given the absence of traditional banks in these communities, these MDIs provided crucial services for individuals and small 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. MDIs can be economic development engines due to their relative concentration in minority and low-income communities, and established relationships, especially African American. 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 custom solution is required.

The NBA has recommended several potential solutions to the Congress and Administration including fully capitalizing and leveraging Treasury's CDFI Fund Program to provide direct Tier 1 capital support to banks that support LMI communities without triggering the Bank Holding Company's limitations and creating a federal facility that could create a \$300 billion increase in bank loans by Minority Depository Institutions and small banks under \$3 billion in assets to communities underserved by capital.

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 it also hampers 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.

While the National Bankers Association commends Congress on its leadership to date in responding to the COVID-19 pandemic, 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 attributable to the COVID-19 pandemic. The MDI sector, its communities and small businesses will disproportionately shoulder the burden of any economic downturn attributable to the COVID-19 pandemic.

We have an opportunity to avert an economic collapse if we all take the necessary steps now to provide diverse small businesses, nonprofits, and LMI communities the emergency relief they need. We need to ensure that we not only contain the spread of COVID-19 but also limit the potential economic carnage to LMI communities and communities of color that stand to be the hardest hit both by the pandemic itself as well as the economic consequences associated with our response to the pandemic. Providing relief to the nation's MDIs is vital if our efforts are to ensure that every community in the country can take part in our nation's post COVID-19 economic recovery. Congressional action in this space will be a determinate of the fate of this sector. The action items requested can impact this sector for a generation. We appreciate your attention to this issue and very much look forward to working with you on this specific and impactful policy change.



Kim Saunders
President and Chief Executive Officer, National Bankers Association
ksaunders@nationalbankers.org



Kenneth Kelly
Chairman, Board of Directors, National Bankers Association
Chairman and Chief Executive Officer, First Independence Bank
kkelly@nationalbankers.org