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"The Role of CDFIs and MDIs in Building Climate Resilience"

Before the Senate Banking Subcommittee on Financial Institutions and Consumer Protection

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Chairman Warnock, Ranking Member Tillis and members of the Subcommittee, good morning and thank you for this opportunity to testify on ways to protect consumers and minority small business during the pandemic. It gives me great hope that one of this Subcommittee's first hearings of the new year is aimed at shining a light on this critical issue.

My name is Robert James II, and I am President of Carver Development CDE, an affiliate of Carver State Bank of Savannah, Georgia and Chairman of the National Bankers Association (NBA). The NBA is the leading trade association for the country's Minority Depository Institutions ("MDIs"). A critical part of our mission is to serve as an advocate for the nation's MDIs on all legislative and regulatory matters concerning and affecting our member institutions as well as the communities they serve.

Many of our member institutions are also Community Development Financial Institutions ("CDFIs") and have become banks of last resort for consumers and businesses who are underserved by traditional banks and financial service providers. Members of our association are on the front lines, trying to reduce the economic hardship in minority communities, which are historically the most vulnerable during any slowdown. We believe our banks are best positioned to help our communities recover and overcome many of the systemic issues that have placed them at an economic disadvantage.

The Senate Banking Committee and Chairman Warnock have been instrumental in the inclusion of several provisions in multiple legislative packages adopted during the course of the last year that ensure that MDIs and the communities we serve are not forgotten during times of crisis.

The creation of the Emergency Capital Investment Program and the $3 billion increase in funding the CDFI fund can help banks like those within the NBA scale up and allow for more access to credit for individuals and small businesses in LMI communities. The Bipartisan Infrastructure Bill also provides billions of targeted dollars that can be instrumental in addressing the needs in our communities created by a changing climate and systemic climate injustice. The NBA applauds the Congress for the adoption of these important measures and very much look forward to continuing to work with you on additional legislation to ensure that our communities, hardest hit by the pandemic and systemic inequity, experience lasting, material changes that will support a broad and deep economic recovery for all Americans.

The growing climate crisis has disproportionately hit low-income Black and brown communities in great measure because they are under resourced. Communities of color are disproportionately victimized by environmental hazards and are far more likely to live in areas with heavy pollution. People of color are more likely to die of environmental causes, and more than half of the people who live close to hazardous waste are people of color.

We have seen this manifest in numerous natural disasters like floods and hurricanes, man-made disasters such as pollution-related illness and most alarmingly during the current pandemic. African Americans, Latinos, and Native Americans get sick and die from the virus at rates higher than their white counterparts and higher than their shares of the population. The unequal burden that COVID-19 has placed on communities of color is not coincidental. Because of decades of housing discrimination and residential segregation, people of color disproportionally reside in low-income neighborhoods.

Tackling environmental injustice and climate resilience in communities of color is important not just for those directly targeted by racial discrimination but also for society at large, as research shows that racism harms the whole economy in different ways.

One of the most noticeable effects of environmental injustice occurs during natural disasters. After a natural disaster hits a community, government aid is typically sent to the area to rebuild infrastructure and restore the area. However, the dispersal of aid is one way in which minorities and low-income communities are hurt by natural disasters. In a study done by Rice University and the University of Pittsburgh, it was found that white counties saw an increase in average wealth after natural disasters while predominantly minority counties saw a wealth decrease. The study notes that white communities saw higher levels of reinvestment in their communities after natural disasters in comparison to their minority counterparts.

Additionally, it was found that white families in communities with significant damage from natural disasters saw an increase in wealth due to generous reinvestment initiatives. However, minority families in communities with similar damage from natural disasters saw a smaller increase in wealth or they actually saw a decrease in wealth. Furthermore, low-income Americans are more likely to suffer from the consequences of tropical storms due to inadequate infrastructure and lack of proper insurance. Low-income and minority populations are also more likely to live near industrial facilities and are therefore at a higher risk for chemical spills and toxic leaks resulting from tropical storms. For example, 60% of African Americans in Baltimore live within one mile of a Toxic Release Industry, and 70% percent of African Americans live within two to four miles of one.

Traditionally, following natural disasters MDIs and CDFIs have served as a source of strength and an economic development engine due to their relative concentration in minority and low-income communities, and established relationships. This is especially true in African American communities. Many of our institutions participate in numerous relief programs offered by various state and federal government agencies. Unfortunately, MDIs' smaller size, especially among African American MDIs, has not allowed us to respond as quickly or with as much scale as many of these situations demands.

MDIs themselves have experienced a period of significant decline. From 2009 to the second quarter of 2018, nationally, the number of MDIs dropped from 215 to 155. 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.

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. MDIs, particularly African American MDIs, have historically lacked access to capital markets that would allow them to scale so, while these 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.

Without sufficient Tier 1 Capital, not only are banks limited in the amount of deposits they can take in, but they are also limited in their ability to provide adequate support during times of crisis. Those who can participate in relief efforts are limited in the amount of loans funds that can be extended, even with federal guarantees or direct support, as they are unable to weather loan significant loan losses. Following natural disasters, many financial institutions, especially those in underserved communities, often have increased delinquent loans. Although federal government efforts to stand up loan loss reserve and other similar programs have been somewhat beneficial, it has been the experience of many MDIs many of these program are not sufficient without adequate capital at the bank level and less red tape at the federal level. Both create bottlenecks when speed is necessary.

Access to capital will allow MDIs to not only respond better during times of crisis but allow us to reverse the situations in our communities that leads to worse outcomes during natural disasters.

President Biden and Congressional Democrats have made good on their promise to steer money toward front-line communities as the United States makes historic investments in climate resilience and mitigation. Provisions in the recent enacted infrastructure law and a $29 billion provision included in the Build Back Better bill go a long way in achieving this goal.

While there are many provisions in the Bipartisan Infrastructure Law aimed at addressing environmental inequities, I will focus on one in particular in the context of today's hearing. The law invests in the deployment of electric vehicle (EV) charging infrastructure as one of many important ways to confront the climate crisis. Through a National Electric Vehicle Formula Program (EV Charging Program), the law provides funding to states to strategically deploy EV charging infrastructure and to establish an interconnected network to facilitate data collection, access, and reliability.

The law also establishes a discretionary grant program for Charging and Fueling Infrastructure (Charging and Fueling Infrastructure Program) to strategically deploy publicly accessible EV charging infrastructure and hydrogen, propane, and natural gas fueling infrastructure along designated alternative fuel corridors or in certain other locations that are accessible to all drivers of such vehicles. The law directs DOT, in coordination or consultation with the Department of Energy (DOE), to develop guidance for both programs.

The implementation of the new EV charging station programs and the disbursement of unprecedented levels of federal funding will provide for more access to cleaner vehicles, reduced demand for polluting fuels and provide job opportunities. While the law does not speak to specific financing models, the Biden administration has been vocally committed to ensuring that the funds available be utilized in LMI communities and that institutions who serve these communities be intrinsically involved. We believe this is an area where MDIs should actively participate. However, the need for capital at our institutions poses a challenge for broad participation by many of our institutions. We believe our participation is crucial as it ensures that the promise of the program will be realized in the communities we serve.

The pending BBB contains a provision establishing a "Greenhouse Gas Reduction Fund" that for the first time would infuse green investments into a vast network of local financiers — some of which have decades long connections with the very communities that are already, and disproportionately, feeling the effects of rising temperatures. Among them are MDIs and CDFIs.

As Senator Van Hollen recently noted “The bottom line is we have two important goals. Obviously, we want to deploy clean energy technology as quickly and efficiently as possible. And we also want to make sure that … communities that have been overlooked in the past are not overlooked again. CDFIs have an essential role to play in the Build Back Better agenda, right? I mean, [especially in] making sure that communities that have often been overlooked when it comes to important investments have that capital available to them.”

While we agree with the Senator’s sentiment, many MDIs and CDFIs still face barriers to expanding their green portfolios. Those obstacles include hiring and training staff to develop and run new loan products and forming partnerships with the installers or service providers of heating, ventilating and air conditioning systems; solar panels; and more.

Most, if not all, of our member institutions already have robust vetting and risk assessment processes in place when it comes to examining, for example, mortgages or auto loans. But many still are working to build the same sort of capacity and expertise when it comes to clean energy. Additional federal funding focused specifically on global warming in conjunction with increased capital could help chip away at those obstacles.

CONCLUSION

The NBA again applauds the Subcommittee for holding this important hearing and for the full Committee’s ongoing efforts to ensure equity for all communities across the country. People of color are on the front lines of the climate crisis. For decades, the power imbalances have constrained communities of color to respond to the impact of climate change and contribute local knowledge to climate solutions. Building political and economic power, as well as speaking up about the challenges, are critical components of climate resilience. It’s time to expand the conversation around climate justice to ensure that all people, regardless of race and ethnicity, are guaranteed protections from the worst effects of climate change. While we commend Congress on its leadership to date in responding to the current crisis, we firmly believe much work remains to be done in supporting the MDI sector as we respond to the needs of the communities and small businesses that our member institutions serve that have disproportionately shouldered the burden. In this regard, the NBA and its members banks look forward to working closely with the Committee and Subcommittee on workable solutions that ensures LMI communities and minority small business do not just simply survive but ultimately thrive. Thank you again for the opportunity to testify. I will be pleased to answer any questions.