NATIONAL ASSOCIATION FOR LATINO COMMUNITY ASSET BUILDERS

Testimony of Noel Andrés Poyo, Executive Director of NALCAB – National Association for Latino Community Asset Builders before the Subcommittee on Investigations and Oversight of the House Financial Services Committee on the topic: Examining Discrimination and Other Barriers to Consumer Credit, Homeownership, and Financial Inclusion in Texas.

Mr. Chairman, Ranking Member, Honorable Members of the Subcommittee and other Members of Congress present here today, thank you for this opportunity to speak with you.

My name is Noel Andrés Poyo. I am the Executive Director of NALCAB – National Association for Latino Community Asset Builders. NALCAB is a national non-profit organization, headquartered in San Antonio and with offices in Washington, DC, with a mission to strengthen the economy by advancing economic mobility in Latino communities. NALCAB is the hub of a national network of more than 120 mission-driven organizations in 40 states and DC that build affordable housing, address gentrification, support small business growth, and provide financial counseling on issues such as credit building and homeownership. Our vision is to dramatically scale the flow of public and private sector capital that responsibly meets the asset building needs and opportunities in the communities and families we serve. We achieve our mission and vision by strengthening and coordinating the capacity of our member Network to deploy capital; and, by influencing investors and policy makers with research, advocacy and technical advice.[1]

Let me begin by expressing appreciation that you are bringing the business of Congress to the people through field hearings. This demonstrates a special kind of respect for the people who sent you to Washington, and who may not have the resources to go see your work there. Thank you for holding this hearing here today on a topic that is of seminal importance not only for the State of Texas but for the entire nation.

Earlier, you heard testimony on barriers to credit, affordable housing, and banking services, especially for low- and moderate-income people. I hope that my testimony helps to set the stage for a discussion of solutions to these challenges.

It is important to recognize that the future strength and competitiveness of the US economy relies on achieving far broader financial inclusion in our economy. To illustrate the point, consider that, Hispanics make up 18% of the US population and have significantly fewer assets, lower income and strikingly less access to credit than the non-Hispanic White population. At the same time, Hispanics are driving our nation's demographic growth and made up approximately half of the total population growth in the US between 2008 and 2018.[2] Hispanics are projected by the Census to make up 28% of the US population in 2060.[3] This trend is even more dramatically present in

[1] www.nalcab.org
[2] https://www.pewresearch.org/fact-tank/2019/07/08/u-s-hispanic-population-reached-new-high-in-2018-but-growth-has-slowed/
[3] https://www.census.gov/library/visualizations/2018/comm/hispanic-projected-pop.html

Texas. It is a pressing macroeconomic concern that Hispanics are the state's and the nation's youngest and fastest growing major population segment and yet are struggling to rebuild their wealth in the post-recession era. This is the same reality for African Americans, for significant segments of the Asian Pacific-American population and for many rural communities, among others. This is not a Latino thing, or rural White thing, or an African-American thing, this is a future of US economy thing. So, I will say this again: the future strength and competitiveness of the United States of America relies on us achieving far broader financial inclusion in our economy. We are all in this together, and the fact is, our diverse American communities are a good investment. NALCAB highlights this with the hashtag #LatinoEconomicEngine.

Advancing financial inclusion requires two equally important things: 1) *fair access* to capital and credit; 2) the *capacity* to utilize capital and credit to build assets. Some people in our economy have had the good fortune of relatively easy and fair access to capital as well as strong capacity to utilize that capital. Those people buy homes, start businesses and build assets; and that is good for our economy. How much better would it be for our economy if everyone shared in that privilege. It should be a highest-level priority of our domestic economic policy to open fair access to capital and credit for people who do not already have that privilege. This includes low- and moderate-income people; people whose families have experienced a legacy of being excluded from the economy, both legally and *defacto*; this includes immigrants. To see the economic benefit, we must also support these populations to build their own capacity to take greatest advantage of fair access to capital and credit.

One size does not fit all when it comes to effective solutions for expanding financial inclusion in the diverse communities of our nation. We need local and culturally-relevant solutions. I want to focus particularly on the role of Community Development Financial Institutions or CDFIs as well as Minority Depository Institutions – minority-owned banks.

CDFIs are private financial institutions that deliver responsible, affordable finance to help underserved people and communities join the economic mainstream. CDFIs move money into rural, urban, and Native communities that mainstream bank financing does not reach. These organizations create jobs, build affordable housing, support small business growth, advance community-based health care, and provide access to banking services across America.[4] Today, there are well over 1,000 CDFIs certified by the U.S. Department of the Treasury's CDFI Fund with more than $150 billion in assets. CDFIs include non-profit loan funds, community development credit unions, banks and venture capital organizations. As a part of the Treasury certification process, CDFIs must demonstrate that their governing boards reflect and represent the communities they serve. NALCAB, the organization I lead, is a certified CDFI, as are more than 35 of our member organizations. NALCAB collaborates closely with the Opportunity Finance Network (OFN) the national umbrella organization for CDFIs.[5]

Minority Depository Institutions are banks controlled by Black Americans, Asian Americans, Hispanic Americans, or Native Americans. MDIs are identified either based on majority-

[4] https://www.cdfifund.gov/impact/Pages/default.aspx
[5] https://ofn.org

ownership by individuals in these minority groups or based on the fact that a majority of the Board of Directors is minority and the community that the institution serves is predominantly minority. The Federal Deposit Insurance Corporation published an important report on MDIs in 2019 which documented that MDIs lend more to borrowers who live in LMI census tracts and to minority borrowers as compared to non-MDI banks.[6] The FDIC recognizes approximately 150 MDIs, a number of which are also certified as CDFIs by the US Department of Treasury.

CDFIs and MDIs have a proven and prudent track record of investing in LMI and minority communities and businesses, including through difficult economic times. When mainstream finance pulled back from LMI and minority communities in the wake of the Great Recession, CDFIs and MDIs continued to lend in their target markets and consistently demonstrated low loan loss rates. These institutions know their target markets and are better equipped to measure and mitigate risk among the borrowers they serve. This includes providing services to build the capacity of borrowers. CDFIs and MDIs make up a critical part of the ladder of economic inclusion in this country, providing realistic opportunities for LMI and minority borrowers to connect to the financial mainstream. The success of CDFIs and MDIs represents a return on investment from federal efforts that support these institutions, including appropriations for the US Treasury's CDFI Fund and efforts by the FDIC and others to support MDI-partnerships in the banking industry. It is also a dramatic demonstration that representation in the board room matters. Imagine how we could advance far broader financial inclusion if the board rooms of the Federal Reserve Banks and our nation's largest financial institutions better represented our nation's diverse communities.

While the local, culturally-relevant efforts of CDFIs and MDIs are critical solutions, it would be a mistake to lose focus on the larger macro-economic context. I would like to highlight several macro-economic matters that are critical for opening fair access to capital and credit to LMI, minority and immigrant populations.

- *Monetary Policy* – We often think of the monetary policy set by the Federal Reserve in the context of the stock market and international finance. In fact, monetary policy is as consequential for LMI populations as it is for everyone in our country, and sometimes more so. We need to be cognizant of the impact of rising rates on the potential for LMI workers to secure and maintain employment. On the other hand, we must be concerned with the extent to which low rates have the potential to incentivize risk taking that creates "bubbles" which, when they "pop," typically harm LMI populations first and worst. We need more focus and research to understand the consequences of monetary policy across the full spectrum of household incomes and circumstances. Former Chair Yellen and Chairman Powell have taken important strides in this regard. In a recent speech at the Jackson Hole economic Policy Symposium, Chairman Powell pointed to the disaggregated employment rate and wage growth among LMI and minority communities as key metrics for measuring the breadth and depth of a strong economy.

- *Trade and Immigration Policy* – The current Administration's erratic approach to trade and immigration policy have created significant headwinds for our economy and have had targeted negative impacts in rural communities and in Texas and other border states, among other parts

[6] https://www.fdic.gov/regulations/resources/minority/2019-mdi-study/full.pdf

of our country. The President of the Federal Reserve Bank of Dallas recently commented on the fact that our nation's trade and immigration policies are the fulcrum of current economic conditions and are increasing the risk of a severe slow down and, further, that monetary policy is unlikely to be able to counteract the negative impacts of these policies.

- *A Strong and Independent Consumer Financial Protection Bureau* (*CFPB)* – A truly free and efficient market has clear rules of the road that prevent abuse. The CFPB plays a central role in placing reasonable limits on predatory activity that strip wealth from LMI communities, including such practices as payday lending, auto title lending and abusive collections practices. We should all be concerned by actions being taken by the current Administration to eliminate prudent financial safe guards for consumer financial markets. On these issues, NALCAB collaborates closely with the Center for Responsible Lending, where I serve as a member of the Board of Directors.[7]

- *GSE Reform* – The manner in which the Congress decides to bring Fannie Mae and Freddie Mac out of conservatorship will have enormous implication for our economy and will fundamentally shape what housing opportunities are available to LMI populations. The GSEs define the terms of access to mortgage credit in the US. It is critical that GSE's continue to have a statutory "duty to serve" populations that experience challenges in accessing mortgage credit. If we are serious about broad financial inclusion, the GSEs must maintain measurable affordable housing goals and be extremely cautious with regard to "risk-based pricing" of mortgage credit, based on risk measurement methodologies that reflect broader biases in our financial system against LMI and minority borrowers.[8]

- *Community Reinvestment Act (CRA)* - We are at an important moment in the public policy discussion around the need to strengthen and modernize the CRA. NALCAB participates with other national and regional organizations in a Collaboration to Strengthen the CRA. Any modernization effort must put the credit needs of low- and moderate-income people and communities of color first. There is a pressing need for Congressional oversight of the Office of the Comptroller of the Currency's (OCC) recent efforts to change the implementing regulations for CRA. The OCC's unilateral approach to reform, without the concurrence of the Federal Reserve and the FDIC, will undermine the CRA because it will create uncertainty and inconsistency among the prudential regulators. Further, Congress should consider extending community reinvestment requirements to the largest, non-bank financial institutions including mortgage companies, insurance companies and credit unions.

Each of these significant policy issues will profoundly shape the opportunities for LMI populations, rural communities, minorities and immigrants to participate more fully in our economy.

Thank you for the opportunity to present this testimony.

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[7] https://www.responsiblelending.org/research-publication/comment-cfpbs-proposed-repeal-payday-lending-rule
[8] https://www.responsiblelending.org/research-publication/testimony-gses-and-ginnie-mae-provide-important-access-mortgage-credit

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