ICBA
Independent Community Bankers of America®

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# Banking the Unbanked: Solutions Must Be Based on Established Financial Institutions

The Independent Community Bankers of America, representing community banks across the nation with nearly 50,000 locations, appreciates the opportunity to provide this statement for the record for today's hearing titled: "Banking the Unbanked: Exploring Private and Public Efforts to Expand Access to the Financial System."

Community bankers are committed to serving their communities, including unbanked populations. A community cannot thrive without inclusive access to the banking system. When a significant population remains outside the banking system, predatory practices flourish. These include high-cost payday loans and car title loans that can trap borrowers in a cycle of debt. Without broadly available bank credit, homeownership rates decline. It becomes harder to build wealth, and the racial and ethnic wealth gap widens. Exclusion from the banking system promotes an underground cash economy. Unbanked individuals who carry cash on their person or keep it in their homes are vulnerable to violent crime. The issue of the unbanked is a significant hurdle to full prosperity. This concern is too important to entrust to untested proposals.

ICBA is concerned about the unintended consequences of proposals that would establish public banks or expand the mission of the United States Postal Service or the Federal Reserve to include retail banking, as well as proposals that would expand the reach of tax-exempt credit unions. In this statement, we offer realistic, viable alternatives for reaching more of the unbanked based on new technologies and established financial institutions.

**Leverage community banks for greater financial inclusiveness**

Community banks have distinguished themselves as ideal partners in bold initiatives to increase financial inclusion. Community banks recently demonstrated their geographic versatility and commitment to underserved communities by originating more than 55.8 percent of all Paycheck Protection Program (PPP) loans, despite accounting for just over 18 percent of total bank industry assets. This program enabled more than 3800 community banks to act as the conduit for more than 2.8 million distressed small businesses seeking federal loan assistance within 98.5 percent of low-income counties, 97 percent of rural counties, and 93.8 percent of urban counties.

Community banks are investing the same energy that they brought to the PPP to increasing financial inclusion. Solutions include: credit building initiatives that allow consumers with thin or nonexistent credit files to build a credit history with special savings and loan products. Some community banks are using alternative data, such as cash flow, or utility and rent payment history, in their underwriting to supplement traditional credit data. Community banks are finding new ways to surmount barriers to serving new immigrants to the U.S. including accepting alternative forms of identification to satisfy customer due diligence rules and other Bank Secrecy Act regulations.

We encourage Congress and the banking agencies to build on the success of a 2008 FDIC pilot program designed to encourage more financial institutions to provide affordable small-dollar loans. Over the course of two years, 31 participating community banks originated more than 30,000 small-dollar loans totaling over $40.1 million. They averaged more than 1,000 loans per quarter. Additional pilot programs examining the sustainability of community banks offering no- or low-cost checking and savings accounts are a viable alternative to public or postal banking proposals or expanded credit union powers.

ICBA has a robust set of recommendations for Congress and the banking agencies to further leverage the community ties and resources of community banks.

**Minority Depository Institutions and Community Development Financial Institutions**

Minority Depository Institutions (MDIs) and Community Development Financial Institutions (CDFIs) specialize in serving minority or low-income communities that are disproportionately unbanked. Without the work of these institutions, the unbanked population would be markedly higher. There are currently 143 MDIs holding over $299 billion in assets touching 600 minority-majority communities nationwide. There are 250 CDFI banks, primarily serving low-to-moderate income markets and maintaining accountability to those target markets. Their impact in the communities they serve is significant and must be leveraged for greater reach.

Minority banks are expert in reaching at-risk demographics. They are effective in these communities because of their understanding of their cultural practices, differences, languages, and norms, allowing them to customize products and services that meet their unique needs. Critically, reaching the unbanked requires the ability to overcome barriers to trust. Trust and cultural understanding are the core value propositions such institutions offer. A public or postal bank would not be similarly qualified. What's worse, these banks could accelerate the closure of MDIs and harm the communities they serve.

Congress should enact legislation to promote and strengthen MDIs and support their reach into unbanked households. Measures could include permitting MDIs to utilize nontraditional means of raising capital to support additional lending. MDIs typically lack access to the public capital markets that larger banks enjoy. In addition to capital, Congress and the federal banking agencies should create programs to promote investments, technical assistance, mentorship, and collaborative relationships between minority banks and community banks at large. A new "Impact Designation" for banks with a specified percentage of loans extended to low-income borrowers would ensure that assistance is directed to those institutions that are having the greatest impact in low-income communities.

The Promoting Access to Capital in Underbanked Communities Act of 2021 (H.R. 2561) is intended to promote de novo community bank formation, including MDIs, by phasing in capital standards over three years. Start-up capital is often the greatest impediment to forming a new bank, and this provision would help spur the creation of new MDIs and Impact Banks. This kind of regulatory flexibility, recognizing the financing disparities of different types of banks, is critical to promoting the formation of additional, mission-driven banks positioned to serve unbanked and underbanked communities.

Measures to strengthen CDFIs include: Funding the CDFI Fund's Loan Loss Reserve Fund for small dollar loans and providing additional appropriations for the CDFI Fund to provide technical assistance to CDFIs. Policymakers should also streamline the application and recertification process for MDIs to receive the CDFI designation. This would not only provide the flexibility for these institutions to reach first-time customers, but also encourage the formation of de novo MDIs, increasing the number of private, community banks focused on serving financially underserved communities. MDIs and CDFIs must be a solution to the challenge of the unbanked.

**Financial technology has the potential to dramatically expand access to banking services**

According to FDIC data, 49.5 percent of unbanked households and 83.2 percent of underbanked households have regular access to a smartphone, while 28.5 percent of unbanked households and 76.1 percent of underbanked households have regular access to the internet. Smartphone and internet access can and will continue to expand with the support of targeted policy initiatives. Younger people of all demographics are already predisposed to use mobile

banking and mobile payments, according to the Federal Reserve's most recent survey on Consumers and Mobile Financial Services.

Partnerships between community banks and fintech providers are a critical part of ensuring greater access to financial services beyond the reach of physical branches. ICBA supports initiatives to expand affordable access to broadband and other technologies and promote the use of fintech as a means for unbanked and underbanked households to access banks with low-cost product offerings. Bank-fintech partnerships are the future of banking, and we must ensure that it expands in an inclusive and affordable manner.

## ICBA Opposes Legislation That Would Expand Public Banking or Enhance the Powers of Tax-Exempt Credit Unions

ICBA offers the following comments on the three bills before this committee today.

*The Public Banking Act of 2021*

This legislation would promote the formation of public banks operated by local or state governments through the creation of a public banking incubator program.

ICBA opposes the formation of new public banks whether they are owned by states, municipalities, or any other federal or quasi-federal instrumentality. Such banks would directly compete with community banks, diverting deposits from local communities and create undue taxpayer risk. Financial services are best provided in a competitive, private, and free marketplace that openly and efficiently benefits customers. These objections to public banking are further examined below.

No public need to establish a state-owned bank. Today's financial services industry meets the banking needs of both consumers and businesses. In particular, community banks provide 60 percent of all small business loans under $1 million, as well as customized mortgage and consumer loans suited to the unique characteristics and needs of their customers and local communities. Community banks compete with large and regional banks, tax-subsidized credit unions and farm credit entities, and nonbank lenders. In this financial services ecosystem, there is no public policy need for a state or publicly owned bank that would directly or indirectly compete with community banks, leveraging a tax exemption and virtually unlimited access to capital.

Taxpayer risk associated with publicly owned banks. Public banks create undue risk and exposure for taxpayers. Notably, a 2019 report by the San Francisco Office of the Treasurer and Tax Collector on the feasibility of three different models of public banking concluded that the bank would break even anywhere between 10 and 56 years with a total capital investment between $184 million and $3.9 billion of public funds. Public banks are not financially viable.

Political interference. A public bank would be subject to the political whims of a state or local government which would dictate the type of products, services, and loans it would offer or even mandate certain loans through political pressure. This would violate the principle of impartial allocation of credit and sound lending. It would create undue risk ultimately borne by the taxpayer. Moreover, history clearly indicates that even public banks founded for narrow, specialized purposes inevitably expand beyond their original scope. Tax-exempt credit unions and the Farm Credit System have expended well beyond their original limitations and now compete directly with community banks and

erode the federal, state and local tax base. Once established, a state or public bank would advocate relentlessly for additional powers to assure its longevity and survival.

For these reasons, ICBA opposes the Public Banking Act of 2021.

*The Access to No-Fee Accounts Act of 2021*

This legislation would require the Federal Reserve to establish no-fee digital transaction accounts that would be available to individuals and small businesses. These accounts would be available at member banks of the Federal Reserve System and other participating banks and credit unions, as well as U.S. Postal Service branch offices.

ICBA believes we must be attentive to the concerns of the Federal Reserve, which has repeatedly said it is not suited to offer direct accounts to consumers. "That's never been our role and it's really not been the role of other central banks," Fed Chairman Jerome Powell recently told members of the Senate Banking Committee. "It would be quite a dramatic change in our role in the economy, and one that would require very careful thought." ICBA believes we should not jeopardize the resources of the Federal Reserve with a major new initiative about which the agency has expressed clear reservations.

Among the reasons to oppose the Act, the Fed is required to meet certain requirements under the Monetary Control Act, including recovering its costs. But that doesn't appear possible for FedAccounts without charges and fees, which wouldn't be permitted under the legislation.

Finally, the USPS is ill suited to offer financial services. Managing assets and liabilities, as well as the significant task of securing consumers' personal financial data against the constantly evolving threat of data breach, is a complex and inherently risky venture. The agency would likely lose money and further jeopardize its precarious financial condition. USPS must focus on its core mission: timely delivery of the mail on which consumers and commerce depend.

*The Expanding Financial Access for Underserved Communities Act*

This legislation would allow federal credit unions to expand their field of membership to include underserved communities, including communities that lack a depository institution branch within 10 miles. It would also exempt loans made by credit unions to businesses in underserved areas from the credit union member business lending cap. ICBA opposes this legislation for the following reasons:

Ineffective targeting of unbanked households. There is no rationale for basing an initiative to reach the unbanked on a geographical area, rather than unbanked households. To do so would distort the policy goals of the legislation. For example, the legislation contains no mandate that credit unions actually serve low-income consumers. A gentrifying area may be situated in a low-to-moderate income census tract but be home to may high net worth households. Allowing CUs to expand service to those consumers would only exacerbate gentrification. Notably, NCUA doesn't monitor whether credit union services are actually provided to LMI individuals.

Low-income credit unions already accept non-member deposits and are exempt from the member business lending cap. Because low-income credit unions are already allowed to accept non-member deposits, there is no reason to expand their fields of membership. Moreover, low-income credit unions are exempt from the cap on member

business loans.

National Credit Union Administration does not examine for Fair Lending. NCUA currently lacks the resources and the willingness to examine CUs for fair lending concerns. The agency simply does not have the ability to scrutinize CUs to ensure they're lending to minority or unbanked populations in LMI areas.

**Closing**

Thank you for convening today's hearing. Banking the unbanked is a policy priority for ICBA. We urge this committee to reject ill-conceived and ineffective proposals and to focus instead on leveraging established community banks with a track record of effectively serving their communities.