

December 1, 2022

Memorandum

To: Members, Committee on Financial Services
From: FSC Majority Staff
Subject: Tuesday, December 6, 2022, Subcommittee on Diversity and Inclusion Hearing entitled, “Unfinished Business: A Review of Progress Made and a Plan to Achieve Full Economic Inclusion for Every American”

The Subcommittee on Diversity and Inclusion will hold a hearing entitled, “Unfinished Business: A Review of Progress Made and a Plan to Achieve Full Economic Inclusion for Every American” on Tuesday, December 6, 2022, at 10:00 am ET in room 2128 of the Rayburn House Office Building/Cisco Webex. There will be one panel with the following witnesses:

- **LeRoy Cavazos-Reyna**, Vice President of Government and International Affairs, United States Hispanic Chamber of Commerce
- **Debra Gore-Mann**, President and Chief Executive Officer, Greenlining Institute
- **Carolynn Johnson**, Chief Executive Officer, DiversityInc
- **Marc Morial**, President and Chief Executive Officer, National Urban League
- **Daniel Garcia-Diaz**, Managing Director, Financial Markets & Community Investment, U.S. Government Accountability Office

Overview

This hearing will review the progress towards full economic inclusion for all in the financial services industry and capital markets since the creation of the Subcommittee on Diversity and Inclusion in January 2019. Since its establishment, the Subcommittee has analyzed the racial and gender wealth gap,^{1,2} the state of diversity within the financial services industry, and barriers to economic inclusion for women, people of color, people with disabilities,³ the LGBTQ+⁴ community,⁵ and justice-involved individuals.⁶

Financial Sector Diversity

The Subcommittee on Diversity and Inclusion has investigated the state of diversity and inclusion in the financial services industry, requesting data from America’s largest banks,⁷ investment firms,⁸ and insurance companies.⁹ In total, the Subcommittee reviewed and analyzed data from the 44 largest banks¹⁰

¹ FSC, [Closing the Racial and Gender Wealth Gap Through Compensation Equity](#) (Apr. 29, 2021).

² FSC, [Examining the Racial and Gender Wealth Gap in America](#) (Sept. 24, 2019).

³ FSC, [Diversity Includes Disability: Exploring Inequities in Financial Services for Persons with Disabilities, Including Those Newly Disabled Due to Long-Term COVID](#) (May 24, 2022).

⁴ The term LGBTQ+ stands for lesbian, gay, bisexual, transgender, queer (or questioning), and the plus is intended to include additional identities such as pansexual, intersex, and asexual. It is a term used to generally refer to individuals who identify under this umbrella term.

⁵ FSC, [There's No Pride in Prejudice: Eliminating Barriers to Full Economic Inclusion for the LGBTQ+ Community](#) (Nov. 9, 2021).

⁶ FSC, [Access Denied: Eliminating Barriers and Increasing Economic Opportunity for Justice-Involved Individuals](#) (Sept. 28, 2021).

⁷ Majority Staff of the Committee on Financial Services, U.S. House of Representatives, [Diversity and Inclusion: Holding America's Large Banks Accountable](#) (Feb. 2020).

⁸ Majority Staff of the Committee on Financial Services, U.S. House of Representatives, [Diversity and Inclusion: Holding America's Largest Investment Firms Accountable](#) (Dec. 14, 2021).

⁹ Majority Staff of the Committee on Financial Services, U.S. House of Representatives, [Diversity and Inclusion: Holding America's Largest Insurance Companies Accountable](#) (Sept. 16, 2022).

¹⁰ Banks as referenced in this memo include bank holding companies and savings and loan holding companies.

with more than \$50 billion in assets, the 31 largest investment firms with more than \$400 billion in assets, and the 27 largest insurance companies that received direct premiums of more than \$7 billion. The Committee on Financial Services published reports summarizing the state of diversity in each of these industries and proposed recommendations to improve workforce and supplier diversity.

Key Findings from the Committee's Reports

1. *Executive Leadership:* The executive level is overwhelmingly White and male. Just 29% of executive leaders were women at the largest banks, 27.5% at the largest investment firms and 34% at the largest insurance companies. On average, just 19% of executive leaders were people of color at the largest banks, 17.3% at the largest investment firms, and 16.2% at the largest insurance companies.
2. *Board Leadership:* The boards of large banks were on average just 30% women, at the largest investment firms 28% women and at the insurance companies 28.5% women. The boards of the large banks were on average just 20% racially and ethnically diverse, at the investment firms 17.5% racially and ethnically diverse; and at the insurance companies 22.3% racially and ethnically diverse.
3. *Engagement of Diverse Businesses and Asset Managers:* Large banks had limited spending and investments with diverse firms. All responding investment firms reported spending less than 4% of asset manager spending with women-owned or minority-owned firms. On average, responding insurance companies spent less than 3% of spend with diverse suppliers.

Many financial institutions have implemented new policies in response to the push for diversity and inclusion and following the formation of the Subcommittee on Diversity and Inclusion,¹¹ resulting in greater representation for women and people of color at the start of 2021 compared to 2018.¹² Despite this progress, representation continues to decline at every step of the corporate ladder, particularly for women of color (Black, Latina, and Asian) whose representation falls by 80% as they seek to fill more senior roles.¹³ Representation of women and people of color in the financial services industry trails their representation in the general population; women are 50.5% of the population and people of color are 40.7%.¹⁴ These statistics indicate that the financial industry still has work to do to achieve equal opportunity across the board.¹⁵

Small Businesses

The Subcommittee examined the unique challenges that minority- and women-owned businesses (MWBs) face when accessing capital and financial services.¹⁶ MWBs encounter distinct barriers to market entry, including limited access to capital and persistent discrimination compared to majority-owned firms.¹⁷ The Subcommittee investigated how systemic inequalities led to disparate impacts during the Covid-19 pandemic and found that MWBs were twice as likely to be classified as “at risk” or “distressed” than their non-minority counterparts due to factors such as “profitability, credit scores, and propensity to use retained earnings as a primary funding source.”¹⁸ MWBs often do not have the financial capacity necessary to compete for medium to large government projects, with just 3.5% of federal

¹¹ Chip Cutter & Vanessa Fuhrmans, Wall Street Journal, [Banking is Now Ahead of Other Industries in Promoting Women](#) (Sept. 11, 2020); Liz Hoffman, Wall Street Journal, [Goldman Sachs Implements Its Own 'Rooney Rule' in Diversity Push](#) (Mar. 18, 2019).

¹² Kweilin Ellingrud et al., McKinsey & Company, [Closing the Gender and Race Gaps in North American Financial Services](#) (Oct. 21, 2021).

¹³ *Id.*

¹⁴ U.S. Census Bureau, [Quick Facts: United States](#) (Accessed Nov. 29, 2022).

¹⁵ Sharon Doherty, Forbes, [How the Financial Services Industry can Accelerate Diversity Initiatives](#) (Apr. 7, 2022); PwC, [A New Challenge for Financial Services: Making Diversity and Inclusion a Priority](#) (2019).

¹⁶ FSC, [Access Denied: Challenges for Women- and Minority-Owned Businesses Accessing Capital and Financial Services](#) (Jul. 9, 2020); FSC, [Building Opportunity: Addressing the Financial Barriers to Minority and Women-Owned Businesses' Involvement in Infrastructure Projects](#) (Feb. 3, 2022).

¹⁷ Michael S. Barr, Hamilton Project, [Minority and Women Entrepreneurs: Building Capital, Networks, and Skills](#) (Mar. 2015).

¹⁸ André Dua et al., McKinsey & Company, [COVID-19's Effect on Minority-Owned Small Businesses in the United States](#) (May 27, 2020).

contracts going to Black- and Hispanic-owned businesses in FY 2020.¹⁹ Several provisions to assist these firms passed into law during the 116th and 117th Congresses, including a \$60 billion set-aside in the Paycheck Protection Program (PPP) so that community development financial institutions (CDFIs), minority depository institutions (MDIs), and other community lenders could provide emergency relief to small businesses,²⁰ as well as \$12 billion in capital investments and grants for CDFIs and MDIs, which allows them to expand their efforts to provide financial access to underserved small businesses and consumers.²¹ Congress also renewed the State Small Business Credit Initiative to provide lending and capital to small businesses,²² and codified and expanded the Minority Business Development Agency.²³

Diverse Asset Managers

The asset management industry is a “cornerstone of the economy,” yet diverse asset managers are significantly underrepresented across the sector.²⁴ Although people of color and women own 6.1% of all U.S.-based firms, a recent study by the Knight Foundation found that they only manage 1.4% of all assets under management (AUM), or approximately \$1.15 trillion out of \$82.24 trillion.²⁵ There is no statistical difference in performance between diverse-owned firms and their peers, even when adjusted for risk and compared to public market returns.²⁶ A GAO study found that these firms must overcome investor and consultant bias, perception of weaker performance and lack of infrastructure.²⁷ Some institutional advisors are diversifying their money managers and requesting more data regarding the diversity of investment teams, most notably pension funds.²⁸ Moreover, a growing number of investment firms are creating funds focused on diverse groups and/or partnering with diverse-led firms to manage monies.²⁹

Persistent Economic Inequality

Despite gains achieved in recent years, economic inequality persists. According to data from the Survey of Consumer Finances, the median White family has \$189,100 in wealth compared to \$24,100 and \$36,050 for the median Black and Latinx family, respectively.³⁰ U.S. Census data from 2020 confirmed that the gender wage gap still exists, with women earning 83 cents for every dollar earned by their male counterparts.³¹ Women of color experience higher poverty rates—18% for Black women, 15% for the Latinx community, and 18% for Native American women compared to 6% for White men.³² These disparities only worsened during the Covid-19 pandemic, with people of color facing higher

¹⁹ U.S. Small Business Administration, [SBA Releases FY 2020 Disaggregated Contracting Data](#) (Dec. 1, 2021).

²⁰ FSC, [Waters Statement on Bipartisan Deal to Fund Paycheck Protection Program, Assist Small Businesses, and Ensure Full Participation by CDFIs and MDIs](#) (Apr. 21, 2020).

²¹ Consolidated Appropriations Act, 2021, [P.L. 116-260](#); contained provisions of [H.R. 7993](#), Promoting and Advancing Communities of Color through Inclusive Lending Act (Waters). See FSC, [Emergency Support for CDFIs and MDIs](#) (Dec. 2020).

²² American Rescue Plan Act of 2021, [PL No: 117-2](#); contained [H.R. 1669](#), State Small Business Credit Initiative Renewal Act (Green). For more information, see FSC, [Fact Sheet – State Small Business Credit Initiative](#) (Mar. 2021).

²³ Infrastructure Investment and Jobs Act, [PL No: 117-58](#); contained [H.R. 2689](#), Minority Business Development Act (Green).

²⁴ Knight Foundation, [Knight Diversity of Asset Managers Research Series: Industry](#) (Dec. 7, 2021); Diverse Asset Managers Initiative, [About](#) (accessed Nov. 30, 2022).

²⁵ *Id.*

²⁶ Jessica Hamlin, Institutional Investor, [The Asset Management Industry Continues to Struggle with Diversity](#) (Dec. 10, 2021).

²⁷ GAO, [Investment Management: Key Practices Could Provide More Options for Federal Entities and Opportunities for Minority- and Women-Owned Asset Managers](#) (Sep. 13, 2017).

²⁸ Morgan Stanley, [“Pension Funds Lead the Way in Prioritizing Diversity in Investing”](#) (Oct. 20, 2021).

²⁹ Rob Kozlowski, Pensions & Investments, [“Ballmers investing in Black-owned money managers, entrepreneurs”](#) (Oct. 27, 2022); Northern Trust, [“Northern Trust Asset Management Seeks Minority-Owned Broker-Dealers as Part of Long-Standing Diversity Commitment”](#) (May 25, 2020); Fidelity, [“Fidelity Women’s Leadership Funds”](#) (Accessed Nov. 30, 2022).

³⁰ Board of Governors of the Federal Reserve System, [Survey of Consumer Finances, 1989-2019](#) (Sept. 2020).

³¹ Areeba Haider, Jocelyn Frye & Rose Khattar, Center for American Progress, [Census Data Show Historic Investments in Social Safety Net Alleviated Poverty in 2020](#) (Sept. 14, 2021).

³² Amanda Fins, National Women’s Law Center, [National Snapshot: Poverty Among Women & Families, 2020](#) (Dec. 2020).

hospitalization and unemployment rates.³³ As of October 2022, the unemployment rate for Black workers was 5.9% and Latinx workers was 4.2% compared to 3.2% for White workers.³⁴

The LGBTQ+ community faces barriers to employment, housing, and financial services, with higher homelessness rates among LGB individuals³⁵ and same-sex couples 73% more likely to be denied a loan than different-sex co-applicants.³⁶ Similarly, people with disabilities are more likely to experience low employment rates, low wages and savings, poverty, increased costs of living, and homelessness compared to those without a disability.³⁷ Justice-involved individuals face persistent challenges as a result of their arrest or conviction record, struggling to access financial services and credit, secure safe and stable housing, and find employment opportunities.³⁸

Areas of Concern

Crypto Impacts on People of Color

Nearly 44% of Americans who own and trade crypto are people of color, 41% are women, and more than 35% have household incomes under \$60,000 annually.³⁹ Black investors are more than twice as likely to say crypto was their first investment,⁴⁰ and a growing number of underbanked individuals are using crypto.⁴¹ The Committee recently sent a request to certain crypto companies to understand their commitment to diversity in part because of the industry's disproportionate use among underrepresented groups.⁴² Some have drawn a link between these groups—the unbanked, underbanked, and Black and Latino communities—historical exclusion from financial services and their interest in seeking alternative means of making transactions and generating wealth.⁴³ Due to the lower median wealth of Black and Latinx families compared to White families, Black and Latinx crypto holders stand to suffer an outsized negative impact to their financial well-being in the event of losses.⁴⁴ For instance, recent polls demonstrate a sharp decline in the share of Black Americans holding bitcoin, indicating that many might have bought high and sold low as markets endure contagion following the collapse of major exchanges.⁴⁵

Financial Inclusion for the Elderly

The number and proportion of older people is growing rapidly in the U.S., with the U.S. Census Bureau projecting that 21% of the American population will be older than 65 by 2030, up from 15% today.⁴⁶ As people age, there is increased risk of financial hardship and poverty due to insufficient savings and income plus additional care expenditures.⁴⁷ Financial services can be less accessible for elderly consumers as a result of physiological changes such as gradual hearing loss and changes in vision.⁴⁸ Older people may face mobility issues that make it difficult to travel to a bank branch or ATM, yet experts find

³³ Inequality.org, [Racial Economic Inequality](#) (2022).

³⁴ U.S. Department of Labor Bureau of Labor Statistics, [The Employment Situation – October 2022](#) (Nov. 4, 2022).

³⁵ Bianca D.M. Wilson et al., UCLA School of Law Williams Institute, [Homelessness Among LGBT Adults in the US](#) (May 2020).

³⁶ Hua Sun & Lei Gao, Proceedings of the National Academy of Sciences, [Lending Practices to Same-Sex Borrowers](#) (Apr. 16, 2017).

³⁷ National Disability Institute, [Race, Ethnicity and Disability](#) (accessed Nov. 30, 2022).

³⁸ David Benoit, Wall Street Journal, [Ex-Inmates Struggle in a Banking System Not Made for Them](#) (Oct. 31, 2020).

³⁹ NORC at the University of Chicago, [More than One in Ten Americans Surveyed Invest in Cryptocurrencies](#) (Jul. 22, 2021).

⁴⁰ Ariel Investments & Charles Schwab, [2022 Black Investor Survey: Report of Findings](#) (Apr. 2022).

⁴¹ Federal Reserve Board of Governors, [Economic Well-Being of U.S. Households in 2021](#) (May 2022).

⁴² FSC, [Chairwoman Waters, Representatives Beatty, Green, Foster and Lynch Send Letter to Digital Assets Industry Requesting Diversity and Inclusion Data](#) (Aug. 4, 2022).

⁴³ Tonantzin Carmona, Brookings Institute, [Debunking the Narratives About Cryptocurrency and Financial Inclusion](#) (Oct. 26, 2022).

⁴⁴ *Id.*

⁴⁵ Annie Lowrey, The Atlantic, [The Black Investors Who Were Burned by Bitcoin](#) (Nov. 29, 2022).

⁴⁶ U.S. Census Bureau, [The U.S. Joins Other Countries with Large Aging Populations](#) (Mar. 13, 2018).

⁴⁷ Global Partnership for Financial Inclusion (GPII) & Organisation for Economic Co-operation and Development (OECD), [G20 Fukuoka Policy Priorities on Aging and Financial Inclusion](#) (2019).

⁴⁸ HelpAge International & Center for Financial Inclusion at Accion, [Aging and Financial Inclusion: An Opportunity](#) (Feb. 2015).

a lack of financial services infrastructure and inadequate investment in teaching elderly consumers how to use mobile services.⁴⁹ Poor communication about products and services prevents older people from utilizing these services and makes them more susceptible to fraud and abuse.⁵⁰

Immigrant Access to Capital and Financial Services

Immigrants⁵¹ are far less likely than native-born residents to use a wide range of financial services, including checking and savings accounts, business loans, home mortgages, and stock ownership.⁵² As a result, there are significant disparities in homeownership rates between immigrants and native-born Americans—52.1% of immigrants compared with 70.8% of non-immigrants owned their homes.⁵³ Further, immigrants are 10% more likely to start a business and be self-employed than native-born Americans,⁵⁴ yet they struggle to obtain business loans due to lack of institutional knowledge about how to secure a loan, lack of collateral or credit history, and religious or cultural practices that prohibit engaging in banking activities that charge interest on loans.⁵⁵ As a result, the most common form of startup capital (roughly two-thirds) for immigrant-owned businesses is personal or family savings.⁵⁶ With limited or no access to traditional financial services, many immigrants are driven to high-cost or predatory service providers who promise fast access to credit or cash at exorbitantly high rates and with deceptive terms.⁵⁷

Climate Equity

Climate change poses the greatest risk to “low-income and disadvantaged populations, women, racial minorities, marginalized ethnic groups, and the elderly.”⁵⁸ People of color are more likely to live in low-lying areas vulnerable to hurricanes and flooding, yet they are less likely to have flood insurance.⁵⁹ Communities of color are less climate resilient because they lack the financial resources needed to prepare for and recover from climate change and extreme weather events.⁶⁰ The Financial Stability Oversight Council also noted that actions to address climate-related financial risks may disproportionately impact financially vulnerable communities in the form of higher costs or limited access to insurance and credit.⁶¹ Evaluation of climate-related financial risk should take into account disparate impact to ensure that low- and moderate-income (LMI) communities have adequate access to financial services and banking products.⁶²

⁴⁹ *Id.*

⁵⁰ *Id.*

⁵¹ Immigrants include those who are not born in the United States and have moved to the United States after birth. People may immigrate as refugees, for economic opportunity and other reasons. Immigrants often pursue a path to citizenship, those who are not yet naturalized citizens are noncitizen residents.

⁵² Anna Paulson & Audrey Singer, [Financial Access for Immigrants: Learning from Diverse Perspectives](#) (Oct. 2004).

⁵³ Robert W. Fairlie, Small Business Administration, [Immigrant Entrepreneurs and Small Business Owners, and their Access to Financial Capital](#) (May 2012).

⁵⁴ Robert W. Fairlie, Small Business Administration, [Examining the Contribution of Immigrant Business Owners to the U.S. Economy](#) (Nov. 2008).

⁵⁵ *Id.*; Marc L. Ross, Investopedia, [Working with Islamic Finance](#) (Jun. 2022); Riyadh Mohammed, CNBC, [Hot Trend in 2017: Rise of Islamic Banks on Main St. USA](#) (Dec. 2016).

⁵⁶ Robert W. Fairlie, Small Business Administration, [Immigrant Entrepreneurs and Small Business Owners, and their Access to Financial Capital](#) (May 2012).

⁵⁷ Sonia Lin, Consumer Financial Protection Bureau, [Identifying and Addressing the Financial Needs of Immigrants](#) (Jun. 2022).

⁵⁸ World Resources Institute, [Climate Equity](#) (2022).

⁵⁹ Jessica Villalon, Bayou City Waterkeeper, [Flooding Disproportionately Impacts People of Color](#) (Sept. 18, 2020); Rachel Ramirez, CNN, [Increasing Flood Costs Over Next Three Decades Will Mainly Impact People of Color. Study Shows](#) (Jan. 31, 2022).

⁶⁰ Kelly Anne Smith, Forbes, [How Communities of Color are Hurt Most by Climate Change](#) (Jun. 7, 2021).

⁶¹ Financial Stability Oversight Council, [Report on Climate-Related Financial Risk](#) (2021).

⁶² Ellen Myers, Roll Call, [Investors Urge Regulators to Protect Vulnerable from Climate Risk](#) (Jun. 30, 2022).

Appendix: Legislation

- [H.R. 2543](#), “**Financial Services Racial Equity, Inclusion, and Economic Justice Act**” (Waters). This bill, which passed the House earlier this year, includes a number of Committee bills that would: ensure that monetary policy and other work done by the Federal Reserve supports the elimination of racial and ethnic disparities in employment, income, wealth, and fair access to affordable credit; invest in communities of color and other underserved communities by creating and expanding the reach of community financial institutions, creating a new Office of Diverse and Mission-Driven Community Financial Institutions, and making new investments and reforms to help CDFIs, MDIs, and minority lending institutions (MLIs) provide greater financial access to the communities they serve; promote access to fair housing and lending by creating new language access requirements for mortgage servicing, creating a new CFPB Office of Fair Lending Testing, and enhancing penalties for lending discrimination; and promote diversity and inclusion through new data collection from banks and financial regulators and new disclosure requirements for public companies.⁶³
- [H.R. ___](#), “**Diverse Investment Advisers Act**” (Beatty). This draft bill would require companies that register and are registered with the SEC to consider at least one diverse asset manager when contracting out for asset management services and report to the SEC on the extent to which they use diverse asset managers.⁶⁴
- [H.R. 8880](#), “**Multilingual Financial Literacy Act**” (S. Garcia). This draft bill would require the Financial Literacy and Education Commission (FLEC) to carry out a study on the impact of language barriers to financial health and issue a report with recommendations on how to address these barriers to offer better financial inclusion for individuals with limited English proficiency, as well as require FLEC to coordinate and promote efforts of Federal agencies to make financial literacy and education resources available in at least eight of the most commonly spoken languages in the United States.
- [H.R. 3009](#), “**Improving Language Access in Mortgage Servicing Act**” (S. Garcia). This bill would require language translation on residential mortgage applications and in the servicing of mortgages. The CFPB would create a standard language preference form. Creditors and services must provide oral interpretation services and translated documents as available.
- [H.R. 8833](#), “**Making Communities Stronger through the Community Reinvestment Act**” (Waters). This bill would revise CRA rules to ensure that bank loans and investments are meaningful and responsive to the needs of low- and moderate-income communities, communities of color, and meeting the local needs of communities where banks have branches and issue most of their loans. Specifically, this bill would encourage banks to tailor their community development services, require banks to regularly meet with stakeholders to discuss current and future CRA obligations where banks have facilities, evaluate the lending activities completed through a nonbank or fintech partner, encourage banks to issue small-dollar mortgages, introduce stronger consequences for bank activities that are discriminatory or violate consumer financial protection laws, and require the Federal financial supervisory agencies to conduct a study identifying ongoing discrimination or racial disparities in access to credit.
- [H.R. 4707](#), “**Reforming Disaster Recovery Act**” (Green). This bill would establish a community disaster assistance fund for housing and community development acknowledging the increases in extreme weather events and to authorize the Secretary of Housing and Urban

⁶³ For more information, see FSC, [Summary of H.R. 2543](#) (June 2022) and [Section-by-Section of H.R. 2543](#) (June 2022).

⁶⁴ This discussion draft was considered at a Subcommittee on Diversity and Inclusion hearing entitled, “By the Numbers: How Diveristy Data Can Measure Commitment to Diversity, Equity and Inclusion” on Mar. 18, 2021.

Development to provide, from the fund, assistance through a community development block grant disaster recovery program, and for other purposes.