/ inclusiv /

Testimony of Cathie Mahon
President and CEO of Inclusiv
Modern-Day Redlining: the Burden on Underbanked and Excluded Communities in New York
March 6, 2020

Thank you to Chairwoman Maxine Waters and to Congressman Meeks, and all the members of the House Subcommittee on Consumer Protection and Financial Institutions for holding this hearing on "Modern-Day Redlining: the Burden on Underbanked and Excluded Communities in New York" and for the great honor of inviting me to present oral and written testimony.

My name is Cathie Mahon, President and CEO of Inclusiv. Inclusiv works to create a more just and equitable economy by building, growing and supporting local ownership and control of capital. We believe that financial and economic inclusion is a fundamental right and we dedicate ourselves to closing the gaps and removing barriers to financial opportunities for people living in disinvested communities. We are a national network of over 275 credit unions with a mission of helping low- and moderate-income people and communities achieve financial independence through credit unions. Inclusiv is a certified CDFI intermediary raising and channeling capital, building capacity, developing innovative products and services and advocating for member credit unions and the communities they serve.

While our work is national in scope, Inclusiv has been deeply engaged in community development in New York. It is both our home base and represents the second largest membership segment (second only to Puerto Rico where 40% of residents are members of financial cooperatives.) Inclusiv has been instrumental in state and city efforts to make our communities more robust. In NYC, we organized credit unions to work with both the Mayor's office of Immigrant Affairs and the Mexican Consulate to provide banking access to immigrants; accepting both the NYC ID and the matricula consular as primary proof of identity. We work with the African American and faith-based credit unions throughout Central Brooklyn, Queens, Harlem and the Bronx to ensure sustainability and growth in their communities. And we are actively engaging with organizing efforts to charter new credit unions or revive existing charters right here in Southeastern Queens. We founded the New York CDFI Coalition over a decade ago and are active members in the Community Equity Agenda Coalition, New Yorkers for Responsible Lending and Public Bank NYC Coalition.

Banking Deserts in the Financial Center of the Country

The sub-committee has gathered substantial data on the extent of redlining and disinvestment in our City today. New York is a city of profound contrasts and disparities with deep income and wealth inequality. While it is the financial capital of the country, our communities and neighborhoods suffer from disinvestment and banking deserts in less than a 10 mile radius from the financial district.

According to the 2017 data from the NYC Office of Financial Empowerment (an office that I helped establish) the City of NY has a higher percentage of unbanked and underbanked households than the country as a whole.

More than 11.2 percent of NY households are unbanked meaning they have no account (savings or checking) with a financial institution. NYC's unbanked households are highly concentrated in neighborhoods that have higher rates of vulnerable residents and residents struggling in other areas of financial health. Ten NYC neighborhoods account for nearly 35 percent of unbanked households. And 20 neighborhoods account for well over one-half of all unbanked households in the City.

These neighborhoods track exactly to neighborhoods historically and systematically redlined for decades by the mainstream banking system. Residents of the ten most unbanked neighborhoods are predominantly Black or Latino/a; have higher rates of poverty; and have a lower median household income.

An additional 21.8% of New York City households are considered underbanked; these New Yorkers have an account with a financial institution but they rely upon high-cost alternative financial service providers for their banking needs. This translates into roughly 689,000 underbanked New York City households. The borough of Queens reflects comparable rates as the City as a whole. But here in Jamaica, 34% of residents rely upon high-cost financial services.

As a result of this legacy of redlining and disinvestment, residents of these same neighborhoods are more likely to have no credit score or a subprime credit score and hold delinquent debt, unable to make payments due to high interest and extractive fees.

What is to be done?

And so this Sub-committee asks appropriately what is to be done about this modern day redlining to reverse this pattern of underbanked and financially excluded communities; and to bring everyone into an equitable and just financial system. Our answer is three-fold:

- First, we must strengthen and build upon the Community Reinvestment Act and resist the cynical attempts of this Administration to weaken this instrumental legislation
- Second, we must strengthen consumer protections to ensure that all financial services are delivered in a safe and responsible manner.
- Finally, we must work together to build stronger more inclusive local economies and ensure we have vibrant community development financial institutions in every neighborhood and community throughout the country.

Protect the CRA

The Community Reinvestment Act was enacted by Congress in 1977 specifically to address and reverse the practice of redlining. While much remains to be done to improve financial inclusion and reverse the impact of decades of disinvestment, the impact that CRA has had on driving capital to underserved communities is substantial. According to the National Community Reinvestment Coalition, "nearly $3 trillion in home and small business loans from banks went to low- and moderate-income (LMI) borrowers and communities over the last decade."

The growth of community development financial institutions has been driven by bank CRA investment enabling local CDFIs to make the types of loans that banks cannot or will not do. Our own community development credit union movement has grown exponentially in the past two decades, now serving more than 10 million Americans with $90 billion in community owned and controlled assets. This growth would not have been possible without external investments made by banks seeking to meet their community reinvestment responsibilities.

Proposed changes to the Community Reinvestment Act (CRA) could significantly decrease these investments, putting at risk billions in lending each year nationwide. The OCC and FDIC proposed CRA Modernization rule is a cynical attempt to eviscerate the CRA and render it essentially meaningless. While presented as a way of simplifying and streamlining, the application of a single ratio test would prove devastating for communities most in need of and benefitting from CRA investment. Providing banks with a dollar threshold – aggregate dollar amount rather than review of specific activities – will deter those banks from engaging in more innovative activities that may require more time and flexibility to make happen. Banks will avoid smaller, more complicated deals in favor of larger transactions that will more easily allow them to "hit the number" they need to achieve a given ratio and CRA rating.

Impactful, community-based activities – including those involving CDFIs – will be valued less than under the current system. It will make banks less accountable to local communities and high-impact activities. This approach to CRA rating will silence the voices and input of community groups during CRA exams.

Strengthen Consumer Protections

The greatest challenge for unbanked and underbanked communities these days is not the lack of capital but the cost and terms with which financial products and services are delivered. As a result of decades of redlining, high-cost predatory financial services from check-cashers and pawn shops to subprime mortgage lenders to high-cost auto finance companies flood low-income consumers and communities preying upon their exclusion from safe and responsible options.

Numerous studies have documented the economic harm that payday lending industry has wreaked upon people and communities across the country. Typical payday loan fees and interest charges combine to more than 400% APR, with online lenders charging even higher rates. These usurious fees undermine the ability of CDFI credit unions and other responsible lenders to extend credit to build financial health and opportunity for moderate income borrowers.

New Yorkers have benefitted from comparatively strong consumer protections and usury laws preventing the scourge of payday lenders coming into our communities. A national study from the Center for Responsible Lending has shown that state payday loan bans **save consumers more than $2.2 billion annually** in fees that would otherwise be paid to payday lenders. In New York alone, our strong usury protections have saved New York consumers an estimated $780 million in extractive fees.

I would like to share a quick example from our own membership:

> Following Puerto Rico and New York, our next largest membership segment comes from Louisiana where we have been active in helping that state create stronger consumer protections and an interest rate cap of 36%. Louisiana payday loans currently carry average annual interest rates of nearly 400%, and cost Louisianans $145 million dollars in fees each year. Despite the rhetoric to the contrary, payday loans are rarely a short-term fix for a single unexpected emergency for a borrower. 87% of payday loans made in that state are made within two weeks of a previous loan being repaid, and the cycle repeats itself with borrowers taking an average of 9 such loans per year. This debt cycle is debilitating to borrowers to escape as debts pile up with payments often in excess of the original loan amount. Our member credit unions there have shared agonizing stories of consumers who come to them to get out of payday loan traps, including one elderly woman on fixed income who borrowed $500 from 7 payday lenders to help her daughter get $3500. Several years later, she arrived at the credit union having paid $21,000 in fees and still owing those 7 payday lenders that initial $3500. The credit union provided her counseling and got her out of those loans and be totally repaid within a year.

Inclusiv supports a strengthened Consumer Financial Protection Bureau and had advocated strongly for various protections including the curbing of payday lending. We urge this subcommittee to continue to fight for a strong CFPB. We join with other responsible lenders around the country to support a national usury rate that will make sure that discriminatory lending practices are halted for all. We are eager to work closely with the Financial Services Committee and this subcommittee in particular to lend our voices, data and experience to these efforts.

Building an Inclusive Economy by Investing in Locally Owned and Controlled Financial Institutions

Promoting financial inclusion and asset building starts with a safe and responsible place to bank and grow savings. But it also requires a pathway of loans and support services to help people make the most of their money and to build wealth through productive credit.

There are 82 certified Community Development Financial Institutions (CDFIs) in the State of New York. CDFIs operate in every county across the state providing credit, financial services and counseling to businesses, homeowners and consumers in underserved and distressed communities. CDFIs make loans that support small business, promote homeownership, finance affordable housing units and enable low-income and credit challenged consumers to build credit, consolidate high-cost debt and withstand emergencies.

Just the CDFI credit unions serve more than 283,567 New Yorkers and their families. More than 66% of the credit unions have a designation of minority credit union (serving predominantly communities of color). They have more than $1.9 billion in loans outstanding in New York communities for the following purposes:

- $179 million in small business loans
- $332 million in loans to consumers
- $532 million in first mortgages
- $285 million to limited equity cooperative buildings and other small affordable housing buildings
- $565 million in transportation loans (with an estimated cost savings of $17 million in cost savings from high-cost (predatory) auto lenders targeting communities of color

The ideal strategy to combat modern day redlining and promote inclusion is to invest in the growth and expansion of this robust network of CDFIs around the City and State. At the federal level, the CDFI Fund remains one of the most successful public investments available. The CDFI Fund leverages between $10 and $12 in lending for every $1 of investment into a CDFI. By its statute, a CDFI must invest in low-income investment areas and target populations that have historically lacked access to capital due to redlining. We urge the increase of appropriations to $304 million included in Representative Carolyn Maloney's sign-on letter and applaud the support of House leadership to continue to build and grow this Fund. This year, we are working closely with the Governor's office to establish a State Fund of $25 million to further leverage these federal funds. And finally, Inclusiv is a member of the Public Bank NYC Coalition we believe that public banks can serve as a powerful tool for local governments to invest in local community development financial institutions, permanently affordable housing, living-wage jobs, renewable energy, and other community-led development efforts.

I want to thank you again for the opportunity to share these remarks with you and welcome an ongoing dialogue on how we can continue to build on what works and build more robust local economies.