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Before the Committee on Small Business
Subcommittee on Economic Growth, Tax, and Capital Access

Hearing: Lending deep in communities of color during and in the aftermath of the pandemic. The role of CDFIs and MDIs in providing access to micro and small minority business owners.

Chairwoman Davids, Ranking Member Meuser and Members of the Subcommittee, thank you for inviting me to testify at today's hearing.

I am the Chief Executive Officer of the Lower East Side People's Federal Credit Union (LESPFCU), a not-for-profit community development financial institution, minority designated credit union located in New York City. We are also a proud member of Inclusiv, a national network of mission driven community development credit unions.

Near 400 credit unions throughout the country and financial cooperativas from Puerto Rico are part of the Inclusiv network. Together they serve 14 million predominantly low income and minority communities and manage $190 billion in community-controlled assets. These institutions are like our credit union, CDFI certified, low income designated, MDI designated or have a combination of all those credentials.

Like us, these community development credit unions have been on the front lines delivering capital to people and communities most severely impacted by the recent public health and economic crises.

During the pandemic, while working to help our members access stimulus payments, deal with financial insecurity and access emergency loans, community development credit unions also mobilized to become a critical solution and conduit to getting the Paycheck Protection Program out to minority small and micro businesses that simply would not have been served by large banks.

Through my remarks, I will be sharing the journey of my credit union to illustrate our impact on the community but will also speak from a national perspective to convey the critical role CDFI/MDI credit unions play as financial first responders and minority lenders embedded in communities historically neglected by the financial mainstream.

Established in 1986 as a response to the closure of the last bank branch serving the Lower East Side of Manhattan, our credit union represents the first instance in which a community could effectively use the powers of the Community Reinvestment Act (CRA) to mitigate the impact of branch closures on a low income, minority community.

Thirty-five years later, the Lower East Side People's FCU continues to play the same critical role as the only regulated CDFI in our community, providing responsible, transparent, affordable, and yet sustainable financial products and development services to a population that has been systematically redlined by mainstream financial institutions. Our credit union has been instrumental in mitigating the impact of the gentrification process experienced by the community, by promoting savings and asset-building among low-income families and stimulating economic development in the neighborhoods we serve.

Today our credit union has expanded to serve several additional financially underserved communities throughout New York City, with branches in the North Shore of Staten Island and in East Harlem. The credit union currently manages $90 million in assets and serve near 9,000 members.

Most of our members are invisible to the financial mainstream. They are predominantly low- or moderate-income consumers; most are Latino or like me, immigrants who can overcome the barriers created by a financial system that does not work for many people. I am proud to say that our credit union is a full-service financial institution and offers a full range of financial services, from savings and checking accounts to credit cards, business, mortgage, and real estate loans, as well as money transfer services.

Since our credit union's inception, we have mobilized hundreds of millions in local savings, leveraged and reinvested them right back as affordable loans for consumers, micro/small businesses, affordable housing, and nonprofit organizations in our target communities. Currently our loan portfolio has more than $22 million in mortgages; over $20 million in loans to low-income housing cooperatives; $1 million in micro and small business loans and $16 million in Paycheck Protection Program loans.

All this from a small CDFI that against all odds, has become an engine of economic revitalization in the communities we serve, which happen to be among the most disadvantaged in New York City.

Our story is like the story of other community development credit unions around the country. We are the financial first responders. We are there when disasters strike, we step in when banks leave, we increase our lending when mainstream lenders retreat after economic downturns.

After 9/11, the Lower East Side People's FCU was one of the few financial institutions that reopened that very same week. We dusted off our lobby and started helping community residents and businesses, providing cash, and deploying hundreds of loans to keep small businesses afloat in Lower Manhattan. Last year we did it again. Our branches continued functioning. In a time of crisis, we saw unprecedented demand for our services that resulted on an acceleration of our growth.

For a regulated CDFI such as ours, growth is both a blessing and a curse. While we are a sustainable operation, our margins are thin because of the population we serve. Credit unions do not have access to capital markets, therefore our ability to build capital to sustain growth depends on our own ability to generate earnings. Without the resources we have been able to access through the CDFI Fund, the Lower East Side People's FCU would not have the impact and the institutional capacity we do now. Over the last 20 years, our credit union has received over $6 million in technical and financial assistance grants from the CDFI Fund. These investments have been leveraged 15 times over and as a result, we have exponentially scaled up our lending, expanded our reach and significantly increased our capacity to serve the community.

Our experience with PPP was on itself a journey. We could not participate in the first round as the money was exhausted even before we could get on the SBA platform. We focused on disseminating information and educating businesses about the program. On the second round we faced some significant logistic challenges just trying to get on the SBA platform, but our team quickly gained the expertise needed to assist micro/small business owners more efficiently. Most of the PPP origination on our books have taken place this year. We now have a strong pipeline that we hope to continue processing, as long as the $9 billion set aside is available.

The vast majority of our business borrowers are micro and very small entrepreneurs. They come to us frustrated by their negative experiences with other financial institutions. Most importantly, they trust us: *"It has been a challenging and intense year. In the midst of the pandemic that shook the entire world, bringing all businesses to their knees, you managed to be a wonderful professional and such a caring person. Your long hours, your thoughtfulness helped my company get through this year. Thanks to the credit union we were able to access the paycheck protection program. We are still around because of you"* says one of or PPP borrowers.

Our credit union is in the business of empowering consumers, we build trust and provide asset building opportunities for individuals and businesses that have been written off by the mainstream financial system: *"We have been banking with a major commercial bank for 9 years saving every penny we had but the day we applied for our first credit card, we were denied. Our son referred us to a local credit union and after 9 months at Lower East Side People's FCU, we have a savings and checking accounts, a credit card, and we just started our first mortgage application",* says a community resident that opened her account during the pandemic.

Our credit union is a lifeline for many in our community: "*Our collaboration with Lower East Side People's FCU has been a life changing experience for the community we serve. Thanks to their support, our clients have been able to build trustworthy relationship with a financial institution and safely establish a savings path that allows them to maintain themselves and their families free of violence. We know that without economic safety there is no safety for survivors".* Says one of our hundreds of community partners.

Our average PPP loan is around $30,000. Our median loan size is $20,833. The largest loan we made was for $750,000 and the smallest one, for only $220, yes two hundred and twenty dollars! Let me just point out that the amount of work is the same, but we did not turn anyone away as other mainstream financial institutions did. Our role is to serve everyone in the community, particularly those businesses that other lenders cannot or will not serve. These are the minority businesses that would have been left behind were not by the work of CDFIs and MDIs.

These statistics are consistent with what Inclusiv has been tracking from its network of community development credit unions. In 2020, community development credit unions originated $1.8 billion in PPP loans, and given the experience of my credit union alone, we believe that this number has been far exceeded so far in 2021. In fact, community based lenders collectively have deployed more than $22 billion in PPP loans so far. We have increased our business borrowers more than ten-fold and a critical source of PPP financing for minority and women owned businesses, small and very small businesses.

Our teams are continuing to work around the clock processing loans in anticipation of the May 31 deadline. In the past two weeks, there has been confusion about how much PPP funds are available and whether the remaining funds will be available through the deadline. We have had to pull back on accepting new applications until we can make sure the businesses we are working with have made it through the approvals. SBA itself has reached out to urge us to continue accepting applications, but the delays in the approval process and our own capacity limitations prevent us from doing so. We urge SBA to:

- Share daily updates with lenders and support organizations like Inclusiv on how much funding remains so we can better determine whether we can accept new applications.

- Provide more information on applications with delays or holds on approvals to help us know whether the hold is due to a challenge with a particular borrower or whether there is an overall system issue.

- Do a review of businesses on hold due to ITINs. Throughout the period, there have been many challenges submitting loans for borrowers with ITIN numbers. Many of these challenges have been resolved. But there are still many ITIN borrowers that have been on hold for weeks and even months without knowing why. We encourage SBA to review these holds to figure out if there is a systemic issues with the information submitted for entrepreneurs with ITINs.

We know how hard SBA staff is working to help resolve issues and we also see they need the resources to help handle these reviews of holds and provide the steady updates so we can get the remaining funds out.

But even as we drive to the finish line on PPP, we are turning our attention to what comes next. Like Lower East Side, credit unions around the country have connected to hundreds of thousands of businesses that had never accessed formal safe and responsible lending for their businesses. Now that we have made these connections and reviewed their financials, we can see how their business growth has been hampered by a lack of steady, reliable, and affordable capital. We are uniquely equipped to do this in the long run, but we need the resources to do it.

Post PPP Opportunities

We have a moment of opportunity here to serve minority businesses and entrepreneurs better in the future. And CDFI credit unions are key to helping these businesses not just survive but to grow and thrive. We need to work together with Government Agencies like SBA, CDFI Fund and the Treasury Department to create a framework that more effectively helps CDFI lenders mitigate our risk, build our balance sheets to continue to meet the demand and access sources of capital to leverage the deposits needed to expand responsible financing opportunities to business borrowers in minority communities throughout the nation.

To this effect, I would like to propose the following ideas for your consideration:

- Open the SBA Community Advantage Program to CDFI credit unions. It provides guarantees between 75% - 85% for small businesses for loans up to $250,000. The guarantees are targeted to underserved communities and thus are more flexible than traditional SBA guarantee programs. Unfortunately, only 501c3 lenders can currently participate.

- Improve the traditional 7a SBA program. The loan guarantee process is cumbersome to borrowers and challenging for community lenders who provide intensive support to help borrowers move through the hurdles. We believe SBA should explore streamlined automated approvals for smaller loans under $150,000 . This would significantly expedite our ability to quickly make loans as the businesses need them.

- Provide resources for technical assistance. The businesses we serve are not just challenged by limited access to capital. They need the guidance and support we provide to enable micro and very small business owners access these opportunities and make the most of the financing they receive. This requires investment in technical assistance and training to ensure entrepreneurs are set up for success. At Lower East Side, a significant portion of our loan officer's time is spent on helping the borrower navigate the lending process: gathering their documents, preparing budgets and business plans.

- Keep capital flowing. To keep up with the demand we have seen over the last twelve months CDFI and MDI credit unions need access to affordable and permanent sources of capital. We are encouraged by the inclusion of $12 billion for CDFIs and MDIs in the

COVID relief bill. We plan to access all programs Treasury and the CDFI Fund make available:

- We applied for a $3 million grant under the CDFI Fund Rapid Response Program. This capital infusion will enable us to continue to grow our deposits and our lending. We urge the CDFI Fund to move forward with that review process quickly and to prioritize on-the-ground CDFIs that are directly consumers, homeowners, and businesses most affected by the pandemic.

- We also intend to apply for secondary capital through the US Treasury's Emergency Capital Investment Program -ECIP. We encourage Treasury to make this program as flexible as possible and to ensure that the information requested in those applications is in line with the NCUA review and approval process. We also urge NCUA to make their reviews of ECIP applications consistent and expeditious. We are counting on this equity infusion to keep meeting the growing needs of the micro and small business community we serve and to expand our impact in financially underserved neighborhoods in New York City. These communities have been devastated by the economic crisis and need help now. We cannot afford to wait many months in review processes while the demand for our services grows.

I thank you again for this opportunity to highlight the role of regulated community development financial institutions and I look forward to answering your questions.