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House Committee on Financial Services - Subcommittee on Diversity and Inclusion
"Unfinished Business: A Review of Progress Made and a Plan to Achieve Full Economic Inclusion for Every American."

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Subcommittee Chairwoman Beatty and Ranking Member Wagner, Financial Services Committee Chairwoman Waters and Ranking Member McHenry, and other distinguished members of the Subcommittee on Diversity and Inclusion, thank you for the opportunity to testify before you this morning. My name is Marc Morial, and I proudly serve as President and CEO of the National Urban League. I am also a former Mayor of New Orleans, Louisiana.

The National Urban League is an historic civil rights organization. Since our founding in 1910, we have been at the forefront of the effort to guarantee civil rights, inspire economic empowerment and build generational wealth within the Black community and other underserved populations. As a national nonprofit intermediary, we provide direct comprehensive services that improve the lives of over two million people each year, through our affiliate network of 92 Urban League affiliates in 36 states and the District of Columbia.

The Urban League movement has been a formidable advocate for voting rights, civil rights, and economic justice by way of workforce development and placement, health and wellness promotion, educational equity, entrepreneurship development, home ownership, and financial literacy and empowerment. Throughout our work, we have seen the dire consequences of an American financial system that has systematically cut off and shut out individuals, families, businesses, and communities of color from access to capital.

Nearly 150 years after the closing of the Freedman's Bank, in the wake of a global pandemic that revealed the true extent of the economic insecurity of communities of color; given all that we know about the historical, systemic bigotry of banks and governments against communities of color even after the end of slavery and legalized Jim Crow; and in the shadow of the current outrageous, coordinated attack by some against systemic efforts to address the harms of that bigotry, I can think of no more important hearing than one on how to achieve full economic inclusion for all in the financial services industry and capital markets. I commend the Chairwoman, Ranking Member, and the committee members for convening us today.

I also commend Chairman Brown, Ranking Member Toomey, and the Senate Banking Committee for holding a hearing on similar topics last week in which I was proud to provide testimony. These are the most pressing issues of our time.

The United States government has long recognized the value of banking, lending, and depository services for its citizens. Moreover, it has recognized the power that such banking services could provide to the Black community and other underserved communities. One of the first post-Civil

War acts of Congress to benefit the newly emancipated Freedman was the establishment in 1865 of the Freedman's Savings and Trust Company. As Vice President Kamala Harris noted in her speech at the 2022 Freedman's Bank Forum, "[The Freedman's] Bank was guided by a vision — the vision of an economy that works for all Americans and includes all Americans; the vision of a nation in which all people have access to the financial resources they need to succeed, to thrive, and to determine their own future."[1] However, the bank shuttered, leaving over 60,000 Black depositors with a loss of over $3 million in capital (in today's dollars, that's $68.2 million).[2] The failure of the bank left many Black depositors and borrowers distrustful of the banking community.

The failure of the Freedman's Bank left newly freed slaves vulnerable to abuse, as communities of color continue to be today. In a precursor to modern day payday lending, former slave owners used contracts of adhesion to extend credit to sharecroppers in a successful scheme to extend de-facto slavery for another hundred years.

Fast forward generations and these abuses were magnified by a series of discriminatory underwriting and lending regulations beginning in the 1930s. These regulations included the Federal Housing Administration (FHA) restricting insurance of home mortgages to whites-only neighborhoods. These regulations resulted in only two percent of $120 billion in new housing subsidized by the federal government between 1934 and 1962 going to non-whites. What is more, the widely documented and government-sanctioned practice of demarking predominantly Black communities as unsuitable for lending based primarily on racial considerations, known as redlining, was only officially deemed illegal by the federal government in the 1960's—a decade before enactment of the Community Reinvestment Act in 1977, which finally sought to not only prevent discrimination but to affirmatively address some of these inequities.

Nevertheless, discrimination has persisted and equity has been resisted. In addition to the many instances of individual discrimination in banks that have recently made the news,[3] systemic discrimination has also continued. It is widely documented that the banking industry tends to disproportionately open and operate branches in white/non-minority communities. The Justice Department in the Biden-Harris Administration recently entered into a $20 million agreement in a mortgage lending lawsuit in which the company was accused of widespread redlining and other discriminatory practices in the Greater Philadelphia area. The company locations were allegedly concentrated in majority-white neighborhoods, loan officers did not serve the credit needs of neighborhoods of color and employees referred to neighborhoods of color as "ghetto" and made

[1] *Remarks by Vice President Harris at the Freedman's Bank Forum*. (2022, October 4). The White House. https://www.whitehouse.gov/briefing-room/speeches-remarks/2022/10/04/remarks-by-vice-president-harris-at-the-freedmans-bank-forum/.

[2] *Freedman's Bank Building*. (2022, November 4). U.S. Department of The Treasury. https://home.treasury.gov/about/history/freedmans-bank-building.

[3] Murphy, Chris. (2022, March 9). *Black Panther Director Ryan Coogler Falsely Accused of Robbing a Bank.* Vanity Fair. https://www.vanityfair.com/hollywood/2022/03/black-panther-director-ryan-coogler-falsely-accused-of-robbing-a-bank

racists jokes.[4] Other cases have involved loan officers who "referred to subprime loans in minority communities as 'ghetto loans' and minority customers as… 'mud people.[5]

During the Great Recession, comparably sized banks closed at higher rates in markets that served communities of color between 2009 and 2014, with some Black and Hispanic communities losing half their branches. The uneven distribution of bank branch locations exacts a cost on residents of communities of color in the form of greater travel distance and time to the nearest banking facility.[6][7]

These practices also create banking deserts in which predatory payday lenders, check cashers, and other non-bank services thrive, thereby implicating banks in facilitating a market dynamic whereby the financial services environments in communities of color are dramatically different in terms of quality, experience, and expense from those in white/non-minority neighborhoods.[8]

The cumulative result of this discrimination for communities of color has been catastrophic for individuals, families, communities and generations. In 2021, 4.5 percent of U.S. households (approximately 5.9 million`) were unbanked, underbanked, or in banking deserts, meaning that no one in the household had a checking or savings account at a bank or credit union.[9] The likelihood of being unbanked is even higher for some population segments, such as low-income and racial and ethnic minority households. Black and Hispanic families are disproportionately likely to be unbanked: 8.0 percent of Black households and 8.4 percent of Hispanic households were unbanked, compared to 1.7 percent of White households.[10] Moreover, the National Urban League's *State of Black America 2022 Equality Index* shows that Black Americans are less likely to be approved for mortgages than white Americans, at a disparity rate of 41 percent.[11] Further,

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[4] *Assistant Attorney General Kristen Clarke Delivers Remarks Announcing the Justice Department and Consumer Financial Protection Bureau's Agreement with Trident Mortgage Company to Resolve Lending Discrimination Claims* . (2022, July 27). https://www.justice.gov/opa/speech/assistant-attorney-general-kristen-clarke-delivers-remarks-announcing-justice-department

[5] Powell, M. (2009, June 7). *Bank Accused of Pushing Mortgage Deals on Blacks*. The New York Times. https://www.nytimes.com/2009/06/07/us/07baltimore.html; Egan, M. (2018, February 27). *Wells Fargo accused of preying on black and Latino homebuyers in California*. CNNMoney. https://money.cnn.com/2018/02/27/investing/wells-fargo-sacramento-lawsuit-discriminatory-lending/index.html l

[6] Baradaran, M. (2019). *The Color of Money: Black Banks and the Racial Wealth Gap* (Reprint). Belknap Press: An Imprint of Harvard University Press.

[7] Rothstein, R. (2018). *The Color of Law: A Forgotten History of How Our Government Segregated America* (Reprint). Liveright.

[8] Flitter, E. (2022). *The White Wall: How Big Finance Bankrupts Black America*. Atria/One Signal Publishers.

[9] *2021 FDIC National Survey of Unbanked and Underbanked Households*. (n.d.). https://www.fdic.gov/analysis/household-survey/index.html.

[10] *2021 FDIC National Survey of Unbanked and Underbanked Households*. (n.d.-a). https://www.fdic.gov/analysis/household-survey/index.html; https://www.fdic.gov/analysis/household-survey/2019report.pdf.

[11] National Urban League, *State of Black America 2022 Equality Index*, https://soba.iamempowered.com/sites/soba.iamempowered.com/files/State-of-Black-America-2022-Black-White%20Index.pdf.

the homeownership rates for Black Americans stand at 43.1 percent compared to 74.4 percent of white Americans.[12]

A clear solution to this issue is to invest and strengthen Black-owned banks, for which there is an incredible need. In our *2022 State of Black America Report,*[13] we found that the number of Black-owned banks has dwindled immensely over the years. Between 1888 and 1934, there were 134 Black-owned banks to help the Black community. Today, there are only 19 Black-owned banks that qualify as Minority Depository Institutions (MDIs). Due to historic undercapitalization, Black banks are small, with average assets of $363 million compared to $4 billion for all U.S. banks. The small number of Black banks and their small asset size limits their overall impact. A century of data proves that Black banks matter. When there is a Black bank in a community, Black people are more likely to be able to buy a home or secure a small business loan. These institutions help minorities build wealth by providing mortgages, small business loans, and financial services when others will not. That is why the work of uplifting Black banks is so vital. If we are not careful, Black banks will disappear.

A clear example of this need is through the distribution of Paycheck Protection Program (PPP) funds. Billions of dollars were supposed to help small businesses through PPP. But the money was marred by racial inequity. PPP lending revealed stark racial disparities across the country. When seeking PPP funding as a form of emergency assistance, employer firms owned by people of color, and particularly Black-owned firms, were less likely to receive all the PPP funding that they requested. Only 61 percent of Black-owned firms applied for a PPP loan compared to 85 percent of Asian-owned firms, the largest share of any group. When Black-owned firms applied for PPP funds at large banks, 41 percent received all the funding sought (compared to 71 percent for white-owned firms). When applying to small banks, 48 percent of Black-owned firms received the full share (versus 80 percent for white-owned firms), and 24 percent were fully approved at online lenders (versus 49 percent for white-owned firms).[14]

Efforts to Address Discriminatory Practices and Increase Equitable Access to Banking

The need for action by banks, by government, and by the civil rights community is clear. The question is what is there to be done about it.

One solution is to echo the work of this committee and put greater emphasis on diversity and inclusion with the financial services workforce. The individuals who make banking and financial decisions wield enormous power. Traditionally, decision-making authority at banks has been the bastion of middle- and upper-class white males who may or may not – even when well-meaning – understand the aspirations, needs, opportunities, and challenges of communities of color. Moreover, a lack of diversity breeds distrust within communities of color. People need to see themselves reflected in a company's leadership – personnel and boards, relationships, and investments.

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[12] *Id.*

[13] Elam, N., & James, R. (2022). The National Urban League- The State of Black America® Report. *Https://Soba.Iamempowered.Com/Strengthening-Black-Banks-Will-Strengthen-Black-America*

[14] *2022 Report on Firms Owned by People of Color Based on the Small Business Credit Survey*. (n.d.). https://www.fedsmallbusiness.org/survey/2022/2022-report-on-firms-owned-by-people-of-color

Chairwoman Waters and Chairwoman Beatty are to be commended for the research done in the last two years by the Subcommittee on Diversity and Inclusion around financial sector diversity – or rather lack thereof. Your reports revealed that only 19 percent of executive leaders were people of color at the largest banks and the boards of the largest banks were on average just 20 percent racially and ethnically diverse. Large banks also had limited spending and investments with diverse firms – less than 4 percent of asset manager spending with women-owned or minority-owned firms.

Moreover, Chairwoman Waters is also to be commended for shepherding through the House the *Financial Services Racial Equity, Inclusion, and Economic Justice Act*, 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-Driver 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.[15]

And I also want to bring attention to Chairwoman Beatty's *Diverse Investment Advisers Act*, which 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.[16]

The last few years have also resulted in an unprecedented and long-overdue investment in equity for communities of color by Congress and the Biden-Harris Administration.

President Biden made clear his intention to focus on racial equity by making one of his first actions an executive order on racial equity, which directs all agencies to implement policies to reduce barriers to entry for communities of color and other underserved populations.[17] As an example, the Administration, under the leadership of Housing and Urban Development (HUD) Secretary Marcia

[15] Excerpted from Committee summaries.
[16] Excerpted from Committee summaries.
[17] *Executive Order On Advancing Racial Equity and Support for Underserved Communities Through the Federal Government*. (2021, January 21). The White House. https://www.whitehouse.gov/briefing-room/presidential-actions/2021/01/20/executive-order-advancing-racial-equity-and-support-for-underserved-communities-through-the-federal-government/.

Fudge, released the PAVE (Property Appraisal and Valuation Equity) Action Plan, which represents the most wide-ranging set of reforms ever put forward to advance equity in the home appraisal process.

The executive order was followed-up with the passage and signing into law of the historic American Rescue Plan (ARP) and Bipartisan Infrastructure Laws.[18] The Bipartisan Infrastructure Law permanently authorized the Minority Business Development Agency (MBDA) for the first time since its inception and elevated the agency head to the position of Under Secretary, held by Don Cravins, former Executive Vice President, and Chief Operating Officer of the National Urban League. This action granted the agency expanded power to support Black- and other minority-owned businesses. These bills also invested money in poverty reduction, education, digital equity and inclusion, and other job-creating measures aimed at recovering from the COVID-19 pandemic but also going beyond that to build back better and restore the American Dream for underserved populations.[19]

In partnership with the National Urban League, the Treasury Department Office of the Comptroller of the Currency (OCC) has continued Project REACH[20] to promote greater access to capital and credit for underserved populations through policy and structural changes at the national and local level. REACH, which stands for Roundtable for Economic Access and Change, brings together leaders from the banking industry, national consumer advocacy and civil rights organizations, business, and technology companies to identify and reduce barriers that prevent full, equal, and fair participation in the nation's economy. The aim is to promote full and fair economic participation by reducing the number of "credit invisibles" in the U.S. (*i.e.:* consumers without a credit score); and increase the inventory of affordable and sustainable housing, as well as enhance the future of minority-owned depository institutions.

For our part, the National Urban League is continuing to advance “greenlining” initiatives by investing directly in the communities we serve. In March of this year, the Treasury Department also certified the National Urban League’s small business lending subsidiary, The Urban Empowerment Fund, as a Community Development Financial Institution (CDFI), bolstering its ability to deliver vital capital to urban communities. The Fund provides direct loans to Black and other minority-owned businesses in tandem with select Urban League Entrepreneurship Centers, which are currently operating in thirteen Urban League affiliate cities.

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[18] *FACT SHEET: The Biden-Harris Administration Advances Equity and Opportunity for Black Americans and Communities Across the Country*. (2022, June 19). The White House. https://www.whitehouse.gov/briefing-room/statements-releases/2022/06/19/fact-sheet-the-biden-harris-administration-advances-equity-and-opportunity-for-black-americans-and-communities-across-the-country/

[19] *FACT SHEET: Biden-Harris Report: “Advancing Equity Through the American Rescue Plan”*. (2022, May 4). The White House. https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/24/fact-sheet-biden-harris-report-advancing-equity-through-the-american-rescue-plan/

[20] *OCC Announces Project REACH to Promote Greater Access to Capital and Credit for Underserved Populations | OCC*. (n.d.). https://www.occ.gov/news-issuances/news-releases/2020/nr-occ-2020-89.html;

Perhaps one of our greatest achievements to date, however, will be the opening of the National Urban League's new headquarters, the Urban League Empowerment Center. This is not just a home for us, it is a $242 million, 414,000-square-foot investment in the community – including both businesses and families – of Harlem, New York. Located on Harlem's "Main Street," 125th Street, near legendary cultural institutions like the Apollo Theater and the Studio Museum in Harlem, the Empowerment Center will include the National Urban League's headquarters; the Urban Civil Rights Museum; the National Urban League Institute for Race, Equity and Justice; 170 units of affordable housing; and below-market office space for non-profits and community groups, including One Hundred Black Men of New York and the Harlem-based Jazzmobile. It will also include retail space featuring Target and Trader Joe's, which will bring much-needed jobs to the area.

Our Empowerment Center is one of the most significant economic development projects in Harlem's recent history. And in constructing it, we are leading with our values. In addition to affordable housing, we are using minority and women-owned contractors and businesses throughout the building's conceptualization and construction – from our owners' representative to our construction firms to our professional services firms. We also ensured that our retail partners share our commitment to diversity and hiring from the community when they hire from contractors to management to front-line workers. With this project, the National Urban League is leading by example and showing what can happen when you put equity first and center it throughout your organization.[21] Our project – built in one of the toughest real estate markets in the world – is on time, on budget, embraced by the community, and slated to open fully by early 2025.

The National Urban League is also redoubling its efforts at ensuring banks are living up to the commitments made in the wake of the racial protests of recent years. These commitments involved investments in financial literacy and empowerment, home ownership, minority owned business development, workforce development and yes diversity and inclusion in the financial sector. We are especially disappointed by recent actions and court rulings[22] aimed at preventing the Consumer Financial Protection Bureau (CFPB) from using its existing authority to protect consumers from racial discrimination when seeking mortgages, auto loans, credit cards, bank accounts, or other financial services. Just two years after banking executives named themselves allies in the fight against systemic racism, these lawsuits feel like a betrayal to communities who have been too long discriminated against by these institutions.[23]

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[21] It is our hope that other businesses will also invest in a range of minority vendors, from traditional procurement services, like constructions, janitorial, catering and security services, to professional services firms, like those in law, accounting, technology, media, engineering, advertising, and financial services. According to the National Minority Supplier Development Council (NMSDC), Fortune 500 companies – beyond banks – currently direct an average of two percent ($125 billion) of their total spend to minority-owned businesses.

[22] *Appeals court finds CFPB funding unconstitutional*. (2022, October 19). POLITICO. https://www.politico.com/news/2022/10/19/appeals-court-cfpb-unconstitutional-00062626.

[23] Son, H. (2020, June 1). *'Appalled'— Here's what Wall Street CEOs are saying about the killing of George Floyd and protests rocking US cities*. CNBC. https://www.cnbc.com/2020/06/01/wall-street-ceos-speak-out-about-george-floyd-and-protests-rocking-us-cities.html.

The threats against CFPB may result in a return to the system of inadequate financial supervision that failed taxpayers, depositors, investors, homeowners, and other consumers. To allow continued predatory and discriminatory practices against consumers is to inject greater risk into the financial system. That will raise the threat of another a Wall Street-caused financial crisis that costs Americans millions of lost jobs, billions of dollars in taxpayer-funded bailouts, and trillions of dollars in lost home values and retirement savings. It will also perpetuate the targeting of racial and ethnic minority communities by wealth-stripping lenders. Our nation's federal financial regulatory agencies such as CFPB must utilize their statutory mandate to supervise U.S. lending institutions for enforcement of the *Equal Credit Opportunity Act (ECOA)* compliance.

Further, as Congress, this Committee, and hopefully this Subcommittee prepares to transition to new leadership, the Urban League movement will also redouble our efforts to hold Congress accountable for continuing the work, the unfinished businesses of ensuring full economic inclusion for every American. Economic equity must not be a political wedge issue; it must be the focus of every actor within the financial services industry – from Congress, to regulators, to policy makers, to banks and other institutions.

Thank you for your focus on this issue and I look forward to answering your questions.

Attachment:

- 2022 State of Black America Report: https://soba.iamempowered.com/sites/soba.iamempowered.com/files/State-of-Black-America-2022-Black-White%20Index.pdf.