

July 8, 2020

The Honorable Joyce Beatty
Chairwoman
Committee on Financial Services
Subcommittee on Diversity and Inclusion
United States House of Representatives
Washington, DC 20515

The Honorable Ann Wagner
Ranking Member
Committee on Financial Services
Subcommittee on Diversity and Inclusion
United States House of Representatives
Washington, DC 20515

Dear Chairwoman Beatty and Ranking Member Wagner:

On behalf of America's credit unions, I am writing regarding the subcommittee's hearing titled, "Access Denied: Challenges for Women- and Minority-Owned Businesses Accessing Capital and Financial Services During the Pandemic." The Credit Union National Association (CUNA) represents America's credit unions and their 115 million members.

It is well documented that women- and minority-owned businesses (MWBs) face barriers when it comes to access to credit and financial services, more generally. These inequities are connected to a history of structural racism and discrimination. As a result, MWBs typically turn to friends and family for financing, impeding their ability to compete and grow.

Weak banking relationships and lack of access to capital makes MWBs more vulnerable during periods of financial disruption. The COVID-19 recession is no exception. Indeed, women- and minority-owned businesses have been among the hardest hit. The COVID-19 pandemic reinforces the urgency of addressing financial well-being by ensuring access to financial services are inclusive and financial solutions are equitable, especially for women- and minority-owned businesses.

Credit Unions are Mission-driven and Well-positioned to Address Inequity and Advance Financial Inclusion and in the Financial Services Sector

Credit unions recognize that financial inclusion and access to capital are critical to ensuring the survival of many of our nation's most vulnerable small businesses, especially women- and minority-owned businesses, which together represent approximately 66% of U.S. small businesses.¹ As not-for-profit, consumer-owned financial cooperatives credit unions have a laser-focus on our mission of financial inclusion and serving our members.

During economic and financial crises, credit unions have stood out with their focus on mission and we have continued lending to help members navigate through tough times while banks were more concerned with preserving capital. Indeed, credit unions are more likely than other lenders to continue to lend during recessions.² **Significantly, we know that credit union lending is also more inclusive; SBA research specifically shows that roughly 80% of credit union business loans are loans that banks would not make.**³

¹ U.S. Small Business Administration (SBA), "2018 Small Business Profile," available at <https://www.sba.gov/sites/default/files/advocacy/2018-Small-Business-Profiles-US.pdf> and American Express, "The 2018 State of Women-Owned Businesses Report," available at: https://about.americanexpress.com/files/doc_library/file/2018-state-of-women-owned-businesses-report.pdf

² See https://www.cuna.org/uploadedFiles/Advocacy/Related_items/ABB20_1P_Phase4_MBL_F.pdf?utm_source=real_magnet&utm_medium=email&utm_campaign=051820%5Fadvocacy%5Fupdate

³ James Wilcox, UC Berkeley for SBA, Office of Advocacy, "The Increasing Importance of Credit Unions in Small Business Lending," 2011.

Credit unions are also unique in the financial services industry because they lead the way when it comes to gender diversity with 52% of credit union CEOs being women compared to 5% of bank CEOs.⁴ Research suggests that women in leadership positions are correlated with more inclusive organizational cultures,⁵ which bodes well for their ability to advance financial inclusion.⁶ In addition, despite field of membership restrictions and no Community Reinvestment Act (CRA) requirements, credit unions advance financial inclusion and access by locating roughly 70% of credit union branches are in racially/ethnically diverse areas compared to roughly 60% of bank branches.⁷

The way that credit unions execute their mission puts them in a good position to address inequity in the financial services sector affecting MWBEs. In their own way and based on the needs of their membership, all credit unions work toward this. However, given the vulnerabilities of MWBEs, Minority Depository Institution (MDI) and Community Development Financial Institution (CDFI) credit unions are often on the front lines of this critical work.

As of May 14, 2020, there are 324 CDFI credit unions (more than two times the number of CDFI banks), representing nearly 30% of all CDFIs and serving nearly 12 million members.⁸ In addition, as of December 31, 2019, there were 521 MDI credit unions (over three and a half times the number of MDI banks),⁹ representing 10% of all credit unions and serving 4 million memberships.¹⁰

Both MDI and CDFI credit unions form an integral part of the credit union movement and enhance our ability to serve MWBEs and other underserved groups during this crisis.

How Congress can Help Credit Unions Do More

Credit unions are committed to financial inclusion and access. MDI and CDFI credit unions play a critical role in advancing financial inclusion and the economic well-being of their members, including MWBEs. We are pulling together as a movement to support our members and make a difference in their lives during this difficult moment,⁸ but we know that, given the opportunity, we could do more, especially when it comes to providing access to capital to America's small businesses.

While all small businesses have been affected by the COVID-19 recession, MWBEs and their employees are most at risk during the COVID-19 crisis. According to the Federal Reserve, minority-owned businesses are twice as likely to be "at risk" or "distressed" than non-minority owned businesses and at significantly higher risk of closing as a result.¹¹ More needs to be done to ensure that these businesses survive the economic crisis that the COVID-19 pandemic has created.

We offer two suggestions for how Congress can use credit unions to make a bigger difference for MWBEs and their communities:

1. Ensure that all available small business credit is deployable during the recovery.
2. Facilitate the addition of underserved areas to credit unions' fields of membership.

⁴ van Rijn, Jordan, "Credit Unions and CEO Gender," Policy Analysis Issues Brief, " July 2019,

https://www.cuna.org/uploadedFiles/Global/About_Credit_Unions/CEO%20Gender%20Policy%20Brief%20-%202017-19v2.pdf

⁵ Sandberg, Daniel J. "When Women Lead, Firms Win," S&P Global, <https://www.spglobal.com/en/research-insights/featured/when-women-lead-firms-win>

⁶ Avery, Derek R. et al., "Does Diversity Climate Lead to Customer Satisfaction? It Depends on the Service Climate and Business Unit Demography," *Organization Science*, August 2018.

⁷ NCUA, FDIC, and U.S. Census, University of Wisconsin, Applied Population Lab and CUNA analysis and calculations.

⁸ CDFI Fund, "List of Certified Community Development Financial Institutions (CDFIs) with Contact Information as of May 14, 2020," available at <https://www.cdfifund.gov/programs-training/certification/cdfi/Pages/default.aspx>

⁹ Ibid.

¹⁰ National Credit Union Administration (NCUA), Credit Union Call Report, Mid-Year 2019, CUNA calculations and FDIC. Following the NCUA's definition, we use the term "Minority Depository Institution" for credit unions that have reported that over 50% of their current membership, potential membership, and board members are Hispanic American, Black American, Asian American, Native American, or a combination of multiple groups. We include both federally chartered and state-chartered credit unions.

¹¹ Federal Reserve Bank of New York, "Can Small Firms Weather the Economic Effects of COVID-19?" April 2020.

Paycheck Protection Program

Recently released data from the Small Business Association summarizing the Paycheck Protection Program (PPP) lending program confirms that participating credit unions are driven by their mission. Nearly one thousand credit unions have been proud to offer the Small Business Association's PPP loans to their business members, putting a significant amount of resources into helping the program succeed. To date, credit unions have made nearly 200,000 PPP loans with the average loan size of just under \$50,000.¹² When compared to the national average loan size of over \$107,000, it demonstrates that credit unions are there to support small Main Street businesses.¹³

CUNA has surveyed our membership and it is clear that credit union PPP loans are going to the right places, like non-profit organizations that are helping the minority communities in the city of Wilmington, Delaware, minority owned businesses in the lower east side of New York such as a small deli, a tiny photography businesses, and neighborhood bakeries. Another credit union received SBA approval for \$150 million in PPP loans for more than a thousand applicants. More than half of those loans were awarded to people of color. The list goes on and on, and many of these loans were made by CDFI and MDI credit unions.

Deploy All Available Small Business Credit

The PPP is not as much as small business lending program as it is an unemployment prevention program. It will help many businesses survive. It is not designed to not help businesses recover and thrive in the future.

As we enter recovery and for the foreseeable future, access to capital will continue to be a major issue for all small businesses, and particularly women- and minority-owned businesses. There is absolutely no sound policy reason for credit union business lending to be restricted during this time.

- Credit unions have a history of lending to small businesses. Some of the first loans credit unions made more than a century ago went to members operating small businesses. For the first 90 years of credit unions' existence, there was no statutory cap on credit union business lending.
- SBA data shows that 80 percent of the small business loans credit unions make are loans that small banks will not make. Permitting credit unions to do more small business lending will not rob banks of lending opportunity; holding credit unions back will rob small businesses, including minority-owned businesses of access to critically needed credit.¹²
- We conservatively estimate that temporarily removing the MBL cap will provide over \$5 billion in capital to small and informal business ventures, creating nearly 50,000 jobs over the course of the next year - ***at no expense to the federal government.***¹³

CUNA encourages the committee to include H.R. 6789, the Access to Credit for Small Businesses Impacted by the COVID-19 Crisis Act of 2020 in the next phase of COVID-19 legislation. The bill sponsored by Representatives Sherman, Bonamici, and Fitzpatrick, and cosponsored by Chairwoman Waters would lift the credit union MBL cap during the pandemic and one year after the pandemic ends for loans specific to COVID-19.

CUNA appreciates the inclusion of the State Small Business Credit Initiative Renewal Act which would reauthorize \$10 billion for the State Small Business Credit Initiative through state and territory programs. We applaud the requirement to support access to credit to minority and women owned small businesses and appreciate that any unobligated funds be transferred to the Community Development Financial Institutions (CDFI) Fund. CDFIs provide financial services in the most needed areas, typically those that are underserved.

Field of Membership

One of the most important things that Congress could do to promote financial inclusion and ensure that access to financial services is equitable would be to ensure that Federal law permits all Federal credit unions to serve underserved areas. Under

¹² Small Business Administration (SBA), "Paycheck Protection Program (PPP) Report," Approvals through 6/30/2020 and CUNA calculations. Report available at <https://www.sba.gov/sites/default/files/2020-07/PPP%20Results%20-%20Sunday%20FINAL-508.pdf>

¹³ Ibid.

current law, only multiple common bond credit unions are eligible to add underserved areas to their field of membership. If the policy goal is to ensure that all have access to affordable financial services, then the policy should not restrict a subset of member-owned, not-for-profit financial institutions from providing service to these communities. We hope the Committee will consider legislation that expands the opportunity to serve underserved communities to all Federal credit unions.

Conclusion

We appreciate your holding this important hearing today. Credit unions are mission driven to advance financial inclusion and address inequity in access to financial services. They are working to serve their members, including women- and minority-owned businesses, and they are ready to do more if Congress permits them to do so.

On behalf of America's credit unions and their 115 million members, thank you for considering our views.

Sincerely,



Jim Nussle
President & CEO