Written Testimony of Bill Bynum
Hope Enterprise Corporation
Hope Federal Credit Union

Before the Joint Economic Committee
United States Congress

"Increasing Economic Opportunity in the African American Community"[i]

July 29, 2014

Chairman Brady, Vice Chair Klobuchar, thank you for holding this hearing on the important topic: "Increasing Economic Opportunity in the African American Community." I appreciate the opportunity to speak before this committee. I serve as the Chief Executive Officer of the Hope Enterprise Corporation / Hope Federal Credit Union (HOPE) www.hope-ec.org. For twenty years, HOPE has worked to break the cycle of poverty throughout the Mid-South by undertaking a range of income and asset development strategies to improve the quality of life for the region's low- and moderate-income residents. Over that time period, HOPE has generated $2 billion in investments that have touched the lives of 500,000 individuals.

Introduction

Over the past several years, communities around the country and particularly in our region have taken the time to pay tribute to, and reflect on, seminal events from America's civil rights era. Fifty years after the assassination of Medgar Evers in Mississippi and nearly 60 years after the integration of Little Rock Central High School too many of us are faced with the sober acknowledgement that the work of the movement remains unfinished – particularly around issues of economic justice. In the areas of poverty, housing and access to affordable financial services, the gap between African Americans and whites is far too wide.

This testimony is broken into three parts. First, it provides framing comments around issues of persistent poverty, access to affordable financial services, capital to start and expand small businesses and homeownership. It follows with an overview of HOPE's approach and track record in serving low-income people and communities of color. Finally, it concludes with policy recommendations to buttress high capacity community development finance institutions in efforts to create economic opportunity for underserved populations and places.

Part 1 – Persistent Poverty, Access to Financial Services, Small Business Capital and Homeownership

Persistent Poverty

Endemic to the Mid South includes high rates of persistent poverty. Counties and parishes that experience three consecutive decades of poverty rates above 20%, as defined by the U.S. Census Bureau, are classified as "Persistent Poverty Counties."[ii] Twenty-five percent (25%) of the country's persistently impoverished counties are located in the footprint served by HOPE. In

Mississippi, over half of the state's persistently poor counties are counties in which the majority of the population is African-American.[iii]

Access to Financial Services

The Mid South is home to the highest rates of unbanked and underbanked households in the country. Over 40 percent of Arkansas' households are unbanked or underbanked – more than in any other state.[iv] Racial disparities contribute heavily to this imbalance. Seventy-two percent (72%) of black households in Arkansas are unbanked and underbanked, in contrast to 55% of black households nationwide.[v] In Mississippi, 31% of African American households are unbanked, compared to 5% of white households.[vi] The gap is nearly nine percentage points wider than the gap between white and black unbanked households at the national level.[vii] Five of the 10 most unbanked counties and parishes in the country are located in Mississippi and Louisiana.[viii]

Despite robust profitability bank branches have closed at high levels – disproportionately in low-income areas.[ix] As a result, the country has experience an uptick in the emergence of bank deserts particularly in rural areas, inner cities and communities of color. A bank desert is defined as a ZIP code with fewer than two bank branches.[x] Within HOPE's target market, there are 1,031 bank deserts.

When banks leave low-income communities or avoid them altogether, residents in these underserved areas experience the negative effects of the alternative. Researchers suggest a correlation between the poverty of a neighborhood, a large population of minority residents, and the presence of payday lenders and other alternative financial service providers.[xi] Payday loans are short-term, small-dollar loans, typically less than $500 and with a repayment period of less than 30 days. Repayment often coincides with a borrower's pay day, when the borrower's bank account is debited for the amount of the loan plus fees. Once an individual takes out one payday loan, the likelihood that he or she will become a repeat borrower is high. In a study of 15 million payday loans originated in 33 states, the Consumer Finance Protection Bureau found that the median borrower took out 10 loans over the course of 12 months, costing $458 in fees, not including the principal of the loan.[xii]

Residents also suffer a substantial loss of reinvestment benefits when banks leave a community. In low-income neighborhoods, there is a strong relationship between the presence of a branch and the origination of mortgages. Likewise, as branch access increases, the cost of mortgages decreases.[xiii] In Appalachia, as the number of bank branches increased, the number of small business loans increased.[xiv]

Finally, a depository offers a gateway to a savings account and a way to build credit and wealth through asset development. When lower-income families have an account with a depository, they are more likely to own assets – such as a vehicle, a home or savings – which are some of the basic building blocks of economic security.[xv]

Homeownership
While homeownership levels in the Mid South could be considered middle of the road relative to other states, the manner in which individuals purchase homes in the region exacerbates the financial challenges facing area residents.[xvi] Among African Americans, the rate of high-cost mortgage lending in the Mid South significantly exceeds the national average and Mississippi and Louisiana had the highest percent of mortgage loans to African Americans that were high cost in the country.[xvii] While 12.4% of all mortgage originations in Mississippi were made to African Americans, 22.3% of all high cost loans were made to African American borrowers – a gap significantly wider than the gap seen nationally.[xviii] The high cost mortgages translate into less money available to save for college or an emergency.

High-cost loans are also more likely to result in foreclosure.[xix] When foreclosures occur, particularly in low-income communities, the spillover effects are stark. Nearby homes lose value, resulting in a loss of wealth for families. In minority communities, families lose, on average, $37,000 simply for living close to a foreclosed home.[xx]

Access to Capital to Start / Expand Small Business
Nationally, the business ownership rate among whites is 1.5 times higher than that of people of color.[xxi] In Arkansas and Mississippi, the disparities were much higher where ownership rates among whites were 2.2 and 2.4 times higher than minorities. One of the major reasons for the gaps in ownership includes low levels of asset ownership among minorities. According to the U.S. Census Bureau, the Median Net Worth of whites was $110,500 compared to $6,314 for African Americans in 2011. Importantly, $77,092 of the Median Net Worth calculation was home equity for whites compared to $4,190 for African Americans.[xxii] For entrepreneurs with assets, access to capital is more open because the assets may be used to pledge as collateral when applying for a loan. A history of discrimination among lenders and low levels of ownership among the preceding generation also limit minority business ownership.[xxiii]

Part 2 – Focusing on Solutions: HOPE and Community Development Finance
For over 20 years, Hope Enterprise Corporation (HOPE) has taken a data-driven approach to building a sustainable organization that can meet the financial needs of underserved populations. HOPE started out as a $1.5 million business loan fund that targeted distressed counties and parishes in the lower Mississippi River Delta region. Today it is a $280 million community development organization whose affiliates include a highly respected center that conducts policy research, analysis and advocacy. Since its inception, HOPE has financed or leveraged over $2 billion in projects that have affected the lives of more than 500,000 individuals. HOPE's three core areas of development finance include: 1) the provision of retail financial services in areas where little to no access would exist in the absence of HOPE; 2) affordable homeownership; 3) providing access to capital for historically underserved small business owners.

Retail Financial Services
HOPE's primary financial service vehicle is the 29,000-member Hope Federal Credit Union, a federally regulated depository. Thirty-seven percent (37%) of the credit union's members were

unbanked when they joined HOPE, and 7 out of 10 are minorities who are predominantly African American. Over half of HOPE's members earn less than $35,000 a year. The high rate of unbanked members who join HOPE indicates a substantial market demand among families and communities that have been overlooked by the traditional banking sector and left with few options other than high-cost payday and subprime mortgage lenders.

Since 2008, HOPE has expanded its presence from six to 23 service locations – many in bank deserts. In two communities, HOPE preserved access to banking services by acquiring facilities left behind following the closure of the only bank in town. In the census tracts where these branches were located, the percentage of minority residents was 42 percent and 62 percent, respectively.

As indicated above, access to a financial institution matters tremendously in the calculus to move African American families ahead. In West Memphis, AR, HOPE had the opportunity to develop a relationship with a single, African American mother who worked as a cashier at a gas station. Looking to earn more money to provide for her family, she applied for a job with the state as a highway officer. She was accepted into the training program; however, the state did not have the resources to provide uniforms or supplies. Without savings, she had nowhere else to turn but HOPE. HOPE provided her with a loan to purchase the materials that she needed for the training program and for her new career. She graduated from the program, has a new career path with more money and advancement opportunities and is current on her loan.

Homeownership
In 2013, 82% of HOPE's mortgage loan customers were minorities, 57% were low-income and 56% were female. Additionally, 86% of HOPE's home mortgage loans went to first-time homebuyers. An annual survey of HOPE mortgage borrowers indicates that 49% report living in safer neighborhoods and 41% report improved outcomes for their children in school since purchasing a home.

HOPE is able to expand access to homeownership by developing relevant products for its member base that is ready for a mortgage, by developing plans to get ready for its member base that isn't ready and by hiring an experienced team that knows how to locate and package homeowner assistance funds.

For example, a married African American couple in Memphis, TN originally applied for a mortgage in 2012, however, their credit score was not at a level where HOPE could make the loan. Instead of just denying the couple, the HOPE mortgage originator worked with the couple to set up a plan to rebuild their credit. Throughout the course of the plan, the couple checked in with the originator to make sure that they were moving in the right direction. Upon completing the plan, the originator identified down payment assistance funds made available through the city of Memphis and the couple was able to purchase a home.

Access to Capital
Similarly, a high percentage of HOPE's commercial lending benefits historically underserved and economically distressed populations. During the year, 86% of all commercial loans closed, by dollar, went to businesses located in high-poverty areas. This rate was nearly 40 percentage

points higher than the regional bank average for lending was in economically distressed communities. The average annual wage at companies financed by HOPE is $28,217, compared to the poverty wage for a four-person family of $23,050 and the minimum wage salary of $15,080. Additionally, 43% of HOPE's commercial loans are to minority or women owned businesses.

One of the businesses financed by HOPE included McMillan's First Steps – a private, African American owned child care center in New Orleans, LA. After completing the entrepreneurial training curriculum through DelGado Community College in New Orleans, McMillan's First Steps Community Development Corporation qualified for a loan from HOPE to add four additional classrooms, expand its playground and move its entrance off of a busy street. McMillan's employs 40 people in a high poverty community. Importantly, the child care center is one of only two five star centers – the highest quality rating in the state of Louisiana – located in Orleans Parish and the only one serving a high poverty community.

Part 3 – Policy Recommendations

The presence of high capacity CDFIs with a track record of connecting minority populations to affordable financial services is critical for creating opportunity within African American communities throughout the country. To that end, HOPE recommends the following:

Increase the availability and effectiveness of federal support targeted towards persistently impoverished areas and in the South

Within most of the nation's persistently poor counties and particularly within those located in the Mid South, a disproportionate share of residents is people of color. Additionally, by state population levels, the South is home to the highest concentration of African Americans in the country. Investments that enhance the community development capacity to serve residents living in counties of persistent poverty and in the South will create opportunity for a significant portion of the nation's African Americans.

Strengthen the Community Reinvestment Act to support community development institutions serving bank deserts

When banks pull out of communities, the Community Reinvestment Act (CRA) does not always provide protections for underserved communities. Its color blind approach to regulation also does not allow examiners to factor race into their tests of the effects of branch closure decisions. Over the last year, HOPE has either experienced, or worked with other credit unions that have experienced a continuum of responses from banks when closing branches. On one end of the spectrum, one bank that left a community, donated a branch to a community development credit union, provided operating support during the transition period and assisted with transferring customers that lived in the community from the bank to the credit union. On the other end of the spectrum, the only bank in the community left and sold the facility to a federally qualified health center with a restrictive covenant prohibiting the leasing of space to another financial institution without permission from the bank that abandoned the community. The CRA should create more incentives for the first scenario and significant disincentives to prevent the second scenario from occurring.

Support a Strong Payday Lending Rule by the Consumer Finance Protection Bureau
Over the next several months, the Consumer Finance Protection Bureau will be releasing new regulations for comment on short term small dollar loan products. For the Mid South, the CFPB regulations represent the single best opportunity to end the debt trap and to create a space for responsible products. With high rates of underbanked populations, particularly within the African American community, a strong rule is essential to ensuring that individuals and families have the resources to get ahead rather than standing still.

Conclusion
Nearly five decades earlier, in his final presidential address to the Southern Christian Leadership Conference (titled "Where Do We Go From Here?"), Martin Luther King Jr. put forth this impassioned call for economic justice: "Let us be dissatisfied until the tragic walls that separate the outer city of wealth and comfort and the inner city of poverty and despair shall be crushed by the battering rams of the forces of justice. Let us be dissatisfied until slums are cast into the junk heaps of history, and every family is living in a decent sanitary home."[xxiv] Notably, in that speech, Dr. King lifted up the importance of well capitalized black owned banks in Chicago and Cleveland to the overall economic success of the African American community in those respective cities. As HOPE has shown in its own work, the presence of a locally owned financial institution that fosters financial inclusion offers numerous channels to move the historically underserved ahead in today's society.

---

[i] Testimony was excerpted significantly from the following article:
Bynum, Bill "Creating Financial Oases in Bank Deserts" *The Aspen Idea* Summer 2014:85-87. Print.
[ii] Public Law 112-74
[iii] U.S. Treasury CDFI Fund. Persistent Poverty Data by County. April 2, 2012.
http://www.cdfifund.gov/what_we_do/persistentpoverty.asp (accessed April 10, 2014).
[iv] FDIC. "2011 Household Banking Status by State." EconomicInclusion.gov Appendix. 2011.
http://www.economicinclusion.gov/surveys/2011household/documents/appendix/2011-State-Summary-Unbanked.pdf
[v] FDIC 2011
[vi] FDIC 2011
[vii] FDIC 2011
[viii] CFED. The Most Unbanked Places in America. 12 2011.
http://cfed.org/assets/pdfs/Most_Unbanked_Places_in_America.pdf
[ix] FDIC. (2014, February 26). Statement by FDIC Chairman Martin J. Gruenberg on the Fourth Quarter 2013 Quarterly Banking Profile: http://www.fdic.gov/news/news/speeches/spfeb2614.html
[x] U.S. Postal Service Office of Inspector General. Providing Non-Bank Financial Services for the Underserved. White Paper, Washington, DC: United States Post Office, 2014
[xi] Graves, Steven M. "Landscapes of Predation, Landscapes of Neglect: A Location Analysis of Payday Lenders and Banks." the Professional Geographer 55, no. 3 (2003): 303-317.
Graves, Steven M. "State Ranks - PDL." Usury Law and the Christian Right. 2008.
Barr, Michael S., Jane K. Dokko, and Benjamin J. Keys. "And Banking for All?" In No Slack, by Michael S. Barr, 54-82. Washington, DC: Brookings Institution Press, 2012
Silver, Josh, and Archana Pradhan. "Why Branch Closures are Bad for Communities." National Community Reinvestment Coalition. April 2012.
[xii] CFPB. Payday Loans and Deposit Advance Products. White Paper, Washington, DC: Consumer Finance Protection Bureau, 2013

[xiii] Ergungor, O. Emre. Bank Branch Presence and Access to Credit in Low-to-Moderate Income Neighborhoods. Working Paper 06-16, Cleveland, OH: Federal Reserve Bank of Cleveland, 2006

[xiv] NCRC. "Access to Capital and Credit for Small Businesses in Appalachia." National Community Reinvestment Coalition. April 2007. http://www.arc.gov/assets/research_reports/AccesstoCapitalandCreditforSmallBusinessesinAppalachia3.pdf

[xv] Hogarth, Jeanne M., and Kevin H. O'Donnell. Banking Relationships of Lower-Income Families and the Governmental Trend toward Electronic Payment. Bulletin, Washington, DC: Federal Reserve Board, 1999

[xvi] CFED. Assets and Opportunity Scorecard Homeownership Rate. 2012. http://scorecard.assetsandopportunity.org/2014/measure/homeownership-rate.

[xvii] Home Mortgage Disclosure Act 2012.

[xviii] Home Mortgage Disclosure Act 2012

[xix] Bocian, Debbie Gruenstein, Wei Li, and Carolina Reid. "Lost Ground: 2011: Disparities in Mortgage Lending and Foreclosures." Center for Responsible Lending. November 2011. http://www.responsiblelending.org/mortgage-lending/research-analysis/Lost-Ground-2011.pdf

[xx] Bocian, Debbie Gruenstein, and Wei Li. "Collateral Damage: The Spillover Costs of Foreclosures." Center for Responsible Lending. October 24, 2012. http://www.responsiblelending.org/mortgage-lending/research-analysis/collateral-damage.pdf

[xxi] CFED. Assets and Opportunity Scorecard Business Ownership by Race. 2012. http://scorecard.assetsandopportunity.org/2013/measure/business-ownership-by-race

[xxii] United States Census Bureau Detailed Tables on Wealth and Asset Ownership 2011. http://www.census.gov/people/wealth/data/dtables.html

[xxiii] Robert W. Fairlie and Alicia M. Robb.. Race and Entrepreneurial Success Black-, Asian- and White-owned Businesses in the United States. The MIT Press. Cambridge, Massachusetts. 2008. http://18.7.25.65/sites/default/files/titles/content/9780262514941_sch_0001.pdf

[xxiv] King Jr., Martin. (1967, August 16), The Martin Luther King, Jr. Research and Education Institute: http://mlk-kpp01.stanford.edu/index.php/encyclopedia/documentsentry/where_do_we_go_from_here_delivered_at_the_11th_annual_sclc_convention/