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Written Testimony on Community Banking

House Financial Services Committee

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Thank you for the opportunity to submit testimony for the House Financial Services Committee’s hearing “Making Community Banking Great Again.” We appreciate the opportunity to highlight for the committee the vital role community lenders play in advancing economic opportunity and how Congress can support their critical work in underserved communities, particularly rural areas, and with small businesses that large financial institutions are not well-equipped to serve. We urge the Financial Services Committee to continue supporting longstanding, effective federal programs like the Community Development Financial Institutions (CDFI) Fund that help community lenders expand their work and to address barriers to community lenders’ growth and impact with targeted policy interventions.

### ***About Inclusiv***

Inclusiv is the leading network of credit unions with a primary mission of promoting community development and financial inclusion. We are a certified Community Development Financial Institution (CDFI), and the only CDFI exclusively dedicated to investing in the community development credit union (CDCU) movement. Inclusiv supports credit unions serving people who have been excluded from economic opportunity. Our capital and programs help our members ensure everyone has the opportunity to achieve financial well-being and benefits from quality housing, good jobs, and strong, resilient local economies.

Our more than 500 member credit unions are headquartered in 47 states, Washington, DC, and U.S. territories including Puerto Rico, the US Virgin Islands and Guam. They collectively serve more than 21 million Americans and hold more than \$314 billion in community-controlled assets. Nearly half of our members are small credit unions with less than \$100 million in assets and two-thirds are certified CDFIs.

### ***Community Lenders Advance Economic Opportunity***

#### **1. CDFI Credit Unions Are a Vital Resource for Rural Communities**



Rural communities too often contend with dual challenges of economic hardship and reduced access to financial services. Persistent poverty communities are overwhelmingly rural, and 85% of all persistent poverty counties are non-metro counties.<sup>1</sup> Banking deserts are also more common in rural areas, where mobile banking access is limited and the population tends to be older, preferring to bank at physical locations.<sup>2</sup>

As a result, many of these communities rely on credit unions or smaller community banks to access financial services. CDFI credit unions in rural areas, like Tongass FCU, play a critical role in filling the service gap and ensuring rural communities are not left behind. Tongass FCU began in Ketchikan, AK but has since been approached by other communities across Alaska seeking local banking options. In 2005, they began offering financial services in Thorne Bay, a former logging town of 500 residents located on an island, with the support of Thorne Bay's community business association. Through local partnerships and community spaces, they have been able to expand services to include seven branches and five community "microsites" like the one in Thorne Bay. In 2019, Tongass opened another microsite in Hydaburg, a remote town on the same island that has never had local financial services or an ATM and is an hour drive from the nearest community with financial services. By partnering with a local school that provided office space and a location for the ATM, Tongass has been able to provide critical financial services in a central community gathering space. This spirit of partnership and mutual benefit is a cornerstone of the credit union model and enables credit unions to reach areas that mainstream financial institutions will not serve.

CDFI credit unions are additionally well-equipped to serve members with loan offerings that mainstream financial institutions are less likely to offer. For example, Community 1<sup>st</sup> Credit Union serves residents in counties across Iowa and Missouri with a variety of low-cost agricultural loans to cover daily operating costs, finance specialized equipment, or purchase or lease land. Ryan Stober, owner of Centerville Produce, utilized an agricultural loan from Community 1<sup>st</sup> to restart his family's 72-year livestock feed business after a pivotal turning point. Greg Hanshaw, CEO of Community 1<sup>st</sup> CU says:

"Most folks don't have the means or the wherewithal to fund their own operations, so they need a partner. They need someone willing to work with them, stand beside them, and help them through the process. We love to take care of folks who are part of the

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<sup>1</sup> "Rural Poverty & Well-Being." US Department of Agriculture Economic Research Service. 2022. <https://www.ers.usda.gov/topics/rural-economy-population/rural-poverty-well-being/#historic>.

<sup>2</sup> "Rural America at a Glance." US Department of Agriculture Economic Research Service. 2023. [https://ers.usda.gov/sites/default/files/\\_laserfiche/publications/107838/EIB-261.pdf?v=83297](https://ers.usda.gov/sites/default/files/_laserfiche/publications/107838/EIB-261.pdf?v=83297)



agricultural economy. Ag lending is one more way we can show lowans that credit unions are different. Pretty much every deal we make has a much bigger effect. Ryan has grown his business and employment significantly over the last few years. He isn't just taking care of his own family, he's providing a way for quite a few others to take care of their families.”<sup>3</sup>

Hanshaw takes pride in Community 1<sup>st</sup>'s individualized member support and willingness to take risks that other financial institutions may avoid. When members can work with their credit union to find the loan and repayment options that work best for their needs, agricultural livelihoods are saved.

## **2. CDFI Credit Unions Help Low-Income Families Build Wealth Through Homeownership**

For the past two decades, housing costs have been on the rise across the United States.<sup>4</sup> CDFI credit unions help more Americans achieve their goal of homeownership and build a future through first-time homebuyer programs and individualized financial coaching. They collectively hold \$86 billion in community mortgage loans across the country, primarily supporting low- and moderate-income members.<sup>5</sup>

Clearwater Credit Union, a CDFI based in Missoula, MT, knows just how transformative it can be to empower members to own instead of rent. Clearwater is committed to being part of the housing solution by finding unique ways to help more Montanans become homeowners. For 14 residents in a Missoula manufactured home park, this meant going from rental tenants to owners, able to manage their manufactured home community through a resident-elected board of directors.

When the renters had heard that the land their homes sat on was going up for sale, they were concerned about rent increases from a new landlord. However, Clearwater stepped in to offer below market-rate financing to enable them to buy their homes, and the North Missoula Community Development Corporation was able to purchase the land and place it

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<sup>3</sup> “Community 1<sup>st</sup> Credit Union Fosters Financial Well-Being in Rural Iowa.” America’s Credit Unions. 2024. <https://www.americascreditunions.org/news-media/news/community-1st-credit-union-fosters-financial-well-being-rural-iowa>

<sup>4</sup> “Rent, House Prices, and Demographics.” US Department of the Treasury. 2024. <https://home.treasury.gov/news/featured-stories/rent-house-prices-and-demographics>.

<sup>5</sup> “National CDFI Credit Union Profile.” Inclusiv. 2024. <https://inclusiv.org/resources/state-national-cdfi-credit-union-profiles>



into trust for the resident-owned community (ROC), guaranteeing much needed affordable housing in perpetuity.<sup>6</sup>

In Montana, nearly 24,000 manufactured homes have become a critical part of affordable housing for many residents for whom site-built homes are out of reach. Mainstream financial institutions typically only offer short-term, high-priced loans for manufactured homes, since they are titled like automobiles. However, Clearwater offers an innovative loan product at responsible pricing specifically for manufactured homeowners. Their activities are yet another example of how credit union values can make powerful changes happen in the communities they serve.<sup>7</sup>

### **3. CDFI Credit Unions Support Small Businesses and Create Local Jobs**

CDFI credit unions play a key role in supporting small business owners, including worker-owned businesses, with both loans and technical assistance that help small businesses grow and create quality jobs in their communities. These businesses revitalize neighborhoods and help keep local dollars local. Collectively, CDFI credit unions have \$29 billion in lending to local businesses across the country.

Lake Trust Credit Union serves communities across the state of Michigan, where 98% of businesses are small businesses, and small businesses employ roughly half of all Michigan workers.<sup>8</sup> They understand that providing a small business with the funding they need to succeed can jump start a broader impact, creating new opportunities and experiences for local residents. For example, Lake Trust member Marcus Leslie credits Lake Trust financing with helping him serve happiness to his Lansing community through his dessert business, Mr. Leslie's Cheesecakes. After a career in the automotive industry, Marcus made the leap to a Lake Trust-sponsored Incubator Kitchen program at Allen Neighborhood Center in Lansing. Renting space at the Center helped him build clientele and savings before winning first place in a local business pitch competition, which earned him additional funding to continue expanding. Today you can find Mr. Leslie's Cheesecakes in local grocery stores and Meijer locations across Michigan. He plans to open his first stand-alone location in the new Macotta Club food incubator space in downtown Lansing. To support other small business owners at the Macotta Club, Marcus

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<sup>6</sup> "Banking on Values." Clearwater Credit Union. 2023. [https://clearwatercreditunion.org/wp-content/uploads/2024/09/Clearwater\\_Annual\\_Report\\_2023\\_V7.pdf](https://clearwatercreditunion.org/wp-content/uploads/2024/09/Clearwater_Annual_Report_2023_V7.pdf)

<sup>7</sup> "Manufactured Homeowners in Montana." Clearwater Credit Union. 2024. <https://clearwatercreditunion.org/resources/manufactured-homeowners-in-montana/>

<sup>8</sup> "Small Business Saturday in Michigan." Small Business Association of Michigan. 2024. <https://www.sbam.org/celebrate-small-business-saturday-in-michigan/>.



will also act as the resident coach and consultant, and he recently launched an entrepreneurial coaching business to uplift and inspire other business owners in the community. Credit union leaders often invoke the saying “people helping people” to describe the credit union difference, but it just as often applies to members like Marcus, who is motivated to help his fellow entrepreneurs thrive.

#### **4. CDFI Credit Unions Offer Safe Alternatives to High-Cost, Fringe Financial Services**

The low-income and underbanked communities CDFI credit unions serve are often a target for high-cost, fringe financial services. However, CDFI credit unions are helping their members avoid these destabilizing debts with a total of \$17 billion in affordable small dollar loans and alternatives to high-cost payday loans.

One of these CDFI credit unions is Resource One, a Texas-based credit union serving the Dallas and Houston areas. Texas has the highest payday lending rates in the country—Texans pay \$1.1 billion in fees and interest on payday loans each year. To help members avoid exorbitant fees and interest, Resource One offers affordable small dollar loans and has adopted technology to offer rapid loan review and funding to meet members’ emergency needs. Through their QuickCash loan program, they provide loans ranging from \$500-\$2000 with low monthly costs, so members can cover unexpected expenses without entering a costly cycle of debt. Preserving these options through CDFI credit unions helps more people build financial stability and resilience.

#### **5. CDFI Credit Unions Prioritize Members’ Financial Well-Being**

CDFI credit unions are mission-driven, member-owned and -governed financial cooperatives. As engines of financial strength and opportunity, they provide the knowledge and coaching support members need to achieve their financial goals.

For St. Louis Community Credit Union of St. Louis, MO, financial services are more than transactions—they are part of a holistic, community-centered response to increase the standard of living of their members and the communities they serve. Of their 15 branches, 11 are located in or immediately adjacent to distressed census tracts, and 8 are within a Persistent Poverty County. The credit union works in partnership with several social service organizations to meet each community where they are—three of its branches are co-located with partner nonprofits.

St. Louis Community Credit Union, like many CDFI credit unions, offers free financial education and data-informed coaching to help members with spending plans, credit



building, loan preparedness, and money management. Through an array of financial tools, they support both short- and long-term financial planning to help families build and maintain generational wealth.

### ***Preserve the CDFI Fund***

For the past 30 years, CDFIs have earned bipartisan support because they have proven themselves as one of the federal government's best economic development strategies. Through the CDFI Fund, CDFIs use a small amount of public dollars to leverage private funds to restore and promote economic vitality and self-sufficiency in economically distressed, low-income, and persistent poverty communities. Since 1994, CDFIs have leveraged at least \$8 in private sector investment for every \$1 in public funding received, and many CDFI credit unions outperform this measure.<sup>9</sup> In directing at least 60% of their lending toward economically distressed people and communities, CDFIs advance financial independence, combat poverty, and fill financial service gaps in areas that mainstream financial institutions overlook.

It is vital that Congress continue to support the CDFI Fund through the appropriations process to ensure the Fund has the resources needed to operate effectively and provide critically needed grant funding to support the high-impact work of CDFI lenders in communities across the country.

### ***Removing Barriers for High-Impact Small Financial Institutions***

#### **1. Preserve the Credit Union Tax Exemption**

Credit unions have been tax-exempt for almost 90 years because of their unique mutually-owned, not-for-profit structure as financial cooperatives. Credit unions are focused on providing affordable financial services to their communities, and as such their boards are composed of member-elected volunteers. Preserving the credit union tax exemption is critical to allow these institutions to grow and continue reinvesting in their communities.

For Park Community Credit Union, which serves communities across Louisville, Lexington, Richmond, and Berea, KY, reinvesting in the local community is not only smart investing, but also a powerful way to create lasting economic opportunity. When short-term capital was needed for Adventurous Minds Produce Extraordinary Dreams (AMPED) Tech and

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<sup>9</sup> "An Introduction to the CDFI Fund." US Department of the Treasury. 2023. <https://www.occ.treas.gov/topics/supervision-and-examination/bank-management/minority-depository-institutions/cdfi-fund-09-01-2023.pdf>



Learning Center in Louisville, KY, Park Community Credit Union stepped in with the help of Emergency Capital Investment Program (ECIP) funds. The over 12,600 square foot facility will be a workforce development space for the community and a hub for providing in-demand technology training for individuals in low-income communities, with graduates being placed in IT roles throughout the city. Locals anticipate that the much-needed programs through AMPED will help kickstart a revitalization of the community workforce.<sup>10</sup> AMPED’s success highlights the transformative impact of CDFI credit unions and demonstrates the tangible outcomes supported by the CDFI Fund and credit union tax exemption.

## **2. Tailor Regulation and Supervision to the Size and Complexity of Institutions**

Given the varying size and complexity of credit unions, regulation and supervision should be tailored to ensure that small credit unions, which are often minority depository institutions (MDIs), can continue to operate successfully without undue burden. With tailored oversight, these institutions can remain independent and continue serving the communities they know, rather than being urged by regulators to merge with larger institutions that may not share their mission, local knowledge, or commitment to community development.

FOGCE Federal Credit Union has served the residents of Greene County, AL since 1975, growing from \$25,000 at its opening to \$1.67 million in assets today. While the credit union may be labeled “small” at this asset size and just over 800 members, they have nearly 10% market share of the county’s total population and serve as the lifeblood for so many in the county. As longstanding community members, FOGCE staff know what resonates with their members, always reminding them that the money they're borrowing is from the community—that this money comes from their neighbors' savings. This ethos has served both the credit union and the community well, driving home the importance of supporting these strong and committed “hyper-local” financial institutions.

## **3. Increase the Deposit Insurance Limit to Boost Community Lending**

Because community lenders typically serve lower-income areas, raising deposits can be more challenging. Increasing the deposit insurance limit would encourage institutional

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<sup>10</sup> “Park Community Credit Union Celebrates New AMPED Facility.” CUInsight. 2024. <https://www.cuinsight.com/press-release/park-community-credit-union-celebrates-ecip-funds-at-work-with-groundbreaking-for-new-amped-facility/>



investors to place larger deposits in community lenders, expanding their capacity to lend in low-income areas where members have limited savings.

Engage Federal Credit Union in Natchitoches, LA recently received an investment via the David and Lucile Packard Foundation and Inclusiv's Impact Deposits Fund. Kathy Deloney, CEO of Engage FCU emphasized the significance of the investment, saying:

“As a community development financial institution, Engage FCU is always looking for ways to further support our neighbors. This social impact deposit from the Packard Foundation will give us additional loan capital to help our members and their families thrive. The deposit will support micro-enterprise loans for entrepreneurs, payday alternative loans to help families avoid predatory lenders, and other forms of credit to empower our community to succeed.”

Increasing the deposit insurance limit would unlock more opportunities for similar investments, helping community lenders expand access to fair and affordable financial services in the areas that need them most.

Further, raising the deposit insurance limit would help protect small business accounts that may exceed the insured limit. To keep community lenders as viable options for business accounts, small business owners should be able to bank confidently knowing they will be able to continue to cover operational expenses and pay employees in the event that their depository institution fails. Without such coverage, they may be compelled to move their funds to larger banks, weakening community lenders that drive local economic growth. Expanding deposit insurance for business accounts supports local banking options while ensuring that small business owners are protected from unexpected bank or credit union failure.

## **Closing**

In closing, community development credit unions play an essential role in expanding economic opportunity across the nation, including areas that are hardest to reach. By providing safe and affordable financial services, these mission-driven institutions promote homeownership, small businesses, and quality jobs, helping individuals and families build financial independence and resilience.

We urge the House Financial Services Committee to continue its strong support for community lenders by preserving the CDFI Fund, protecting the credit union tax exemption, tailoring oversight to ensure the sustainability of small credit unions, and addressing barriers to growth by increasing the deposit insurance limit. These





interventions can enable CDFI credit unions to continue their vital work and ensure that more communities have access to the financial resources they need to thrive.

Thank you again for the opportunity to submit testimony on community banking. We look forward to working with Congress to continue to empower community lenders and the people they serve.