

Steven Sugarman's Speech to the National Diversity Coalition's Economic Development Conference

October 4, 2019

I am proud to be here today to speak with you about two critical subjects central to solving the problems that continue to face the underbanked in America: the Community Reinvestment Act and the National Diversity Coalition.

For 42 years our country has sought to expand access to capital to low income and other underbanked communities through the Community Reinvestment Act, called the CRA, and for the last 16 years the National Diversity Coalition and National Asian American Coalition have held this important Economic Development Conference to provide leadership for this crucial goal.

Unfortunately, the pace of progress has been slow and while the Community Reinvestment Act has resulted in numerous shining examples of success and progress, across America, on a macro level, the program as implemented has largely failed many of those communities and consumers who need it most.

Today, over 25% of the US population and over 30 million households remain unbanked and underbanked. And the underbanked are predominantly low income, African American and Latino consumers. This problem is everywhere, not just in far off parts of our country. In our own backyard of Compton, California there are only 5 bank branches tasked with serving the needs of a population of 100,000 residents. By comparison, Santa Monica has the same number of residents but is home to 36 bank branches.

According to the FDIC one third of African Americans and Latinos do not have access to any Mainstream Credit products including a credit card, personal loan, auto loan, student loan, or home loan. This compares to only 14% of whites and 4% of those making over \$75,000. It is no wonder the Wall Street Journal recently reported that African American home ownership rates continue to fall each year, while all other racial and ethnic groups are seeing rising rates of homeowners. Most of us here today would not be able to afford a home either without access to a bank branch or mainstream credit products.

The FDIC recently studied issues relating to the under banked and compared the progress of banks to those of telecom companies and cell phone companies in reaching low

income and minority communities. And, for us proud bankers, the results were surprising and embarrassing.

First, kudos to some of our partners in the room tonight from telecom and cable companies like Charter and T-Mobile. You are doing so much for low income, rural and minority communities to get them access to your services.

The FDIC found that approximately 85% of African Americans and Latinos have access to cell phones, this compared to 85% of whites, and 85% of the total population. In fact, approximately 72% of African Americans and Latinos have access to smartphones, compared to 72% of whites and 72% of the population. Cell phone access requires telecom companies to market to, distribute to, and provide credit to consumers. Cell phone companies make money only when a consumer pays their bills and if the cost of selling the service is less than the price of the service. Cell Phone companies have found it profitable to serve African Americans, Latinos and Whites all in the same percentages. Our meetings with T-Mobile need not address issues of credit quality or cost to market to and serve minorities to explain lower penetration rates... because penetration rates, by and large, are not lower. NDC was proud to support both Charter and T-Mobile this past year in their exciting growth initiatives.

Now, let's compare this to Banks. 75% of white household have a credit card. However only about half of African American and Latino households have a credit card. 39% of white household have a home loan, while about 20% of African American and Latino households. Similarly, 38% of African Americans are denied credit cards and loans while only 17% of whites are denied. So minorities are more than twice as likely to be denied a credit card, but have no problem financing a smart phone.

Now Banks, unlike telecom companies, are subsidized by the US Government with FDIC insurance. They are examined by the FDIC, Federal Reserve, OCC, and State Regulators to ensure they don't discriminate. And they are required to lend in low income communities by CRA.

In exchange, banks get FDIC insurance which has been estimated to save banks at least 1% in interest expense with respect to their financing costs compared to the non-banks having to finance themselves with non-insured funds. As an example, NDC and other economists believe a \$50 billion bank receives a subsidy of over half a billion dollars a year from the government due to its FDIC insurance, in part to ensure that minority and low income communities are served and the needs of the unbanked and underbanked are met.

So, we are here today to support NDC in its mission to act as a voice for the voiceless underbanked communities who remain unable to access America's financial system. We are here to ask how we can fix this issue.

This is NDC's mission and it is a question that Bankers and some regulators often ask when we meet with them.

The National Diversity Coalition continues to meet bankers who, in our view, struggle to understand NDC. Some bankers believe that when we ask about a Bank's CRA program, we are implicitly calling into question their personal views on charity or minority relations. NDC often hears from CEOs about the charities they sit on the Boards of personally, the fundraisers they personally attend, or their personal passion for financial literacy.

Senior bankers and bank CEOs are, by and large, pillars of their communities and role models for our children. We are proud to be surrounded by many of you here tonight.

However, at the same time, we are finding that some bankers can, nonetheless, have a blind spot and oversee deficient or impotent CRA programs. These bankers often speak about CRA as charity which they conduct solely out of compassion or just to reduce reputation and liquidity risks and not as a core regulatory obligation of their FDIC insurance mandate or as a way to further business or strategic goals.

In fact, when we hear Bank CEOs conflate their own personal charitable activities with the bank's CRA activities, it can cause us concern.

For instance, we recently met with a large bank whose headquarters is located in one of the most underbanked cities in the United States. This large bank resides amongst a population that, within 5 miles of its office, has an underbanked rate of over 35%. We believe that the executive team includes incredibly charitable and compassionate citizen leaders. But somehow, these executives do not understand that the neighbors they pass on the way to work each morning remain excluded from access to mainstream credit services. This blind spot must be remedied, and our CRA regulations must not allow such inequities to exist and persist.

NDC's advocacy is not personal. A large bank should be lending billions of dollars to low income borrowers and have programs that meet the needs of the community in which it is headquartered so that over a third of its population is not without access to basic financial services. Personal charitable contributions just can't make a dent in addressing the problem. So NDC is focused on ensuring the bank's balance sheet is being properly deployed.

Similarly, when bankers speak of the cost of CRA or believe CRA is a misuse of shareholder resources, it can also cause us great concern. A banker whose profits are built on a foundation of FDIC insurance and regulatory approvals for new branches and ambitious growth and acquisitions but are unwilling to serve the entire population in their marketplace as CRA requires is gaming the system. The end result is a massive shift of costs onto the taxpayer to subsidize another generation of welfare and societal inequities.

Finally, when a CRA program is used by bank executives not to benefit underserved markets but to support the causes of their wealthy clients, by serving as an adjunct to their marketing budget, and for supporting their CFOs tax-planning and investment strategies, it also raises meaningful concerns. We believe the goal of CRA is to reduce the numbers of unbanked and underbanked.

CRA will begin to work, when bankers and regulators measure those things that CRA is meant to address, and when bankers catch up to telecom executives and begin to understand that all consumers are worth serving and can be served profitably and effectively. I assure you that Apple is not losing money on cell phones sold to the 85% of minorities who own them and their market valuation has not been harmed.

The question is how does NDC make CRA work and how should Bankers most effectively engage with NDC. The answer, we believe, is to demand that banks take their CRA obligations with the same seriousness as they take their other regulatory obligations.

Tonight, the National Diversity Coalition is recognizing a true champion of the underbanked, the Comptroller of Currency Joseph Otting. He expanded access to capital as a banker, he innovated, and he has fought to modernize the system and regulations as our chief banking regulator. He understands the status quo is not working for those who need it most.

Bankers and bank regulators know (and often complain about the fact) that the foundation of bank regulations is to operate with systemic, auditable, documented controls.

This is why Bank regulators do not simply ask Bankers to pledge to do their best. Examinations are not just about quizzing executives about their philosophy and ensuring they have good intentions. Instead, they examine policies, procedures, and practices to ensure the depository institutions they oversee in fact have thoughtful plans, well-tailored to their businesses, implemented systematically, through policies, procedures and training. They expect systematic, auditable, documented controls to be in place.

The National Diversity Coalition believes that a bank's obligations under the Community Reinvestment Act should be no different than their other regulatory obligations and should be regulated no differently. The CRA is not a second-class regulation and does not deserve second-class oversight.

That is why we are so excited about the current efforts of Comptroller Otting and his excellent team at the OCC in spearheading the reform of the Community Reinvestment Act. And that is why we are asking all of you to stand with us to recognize the need for dramatic and important reforms to CRA. We need to do better. We need the banking industry to make CRA real. We need banks to have real CRA plans, well-tailored to their businesses and their

communities, to be implemented systematically, to be auditable and documented, with controls in place. We need accountability. We need what Comptroller Otting is advocating.

I am so proud to work with the National Diversity Coalition. For me, this experience lets me speak proudly about how after over 4 decades, we have begun to make a dent in the number of unbanked and underbanked and to expand access to capital to low income and minority communities in America. To open branches in Compton and South LA and provide basic consumer lending products in Atlanta, Georgia and El Paso, Texas.

I have had the chance to meet with dozens of CEOs and senior executives at banks over the past couple of years and I am so impressed with so many. Our industry have the talent and the compassion. When you hear from Comptroller Otting, all will agree we have the right leadership for this unique and timely opportunity. The next couple years are a time for great hope. Thank you for joining us tonight, supporting NDC, and partnering with us on this important mission.