

Testimony of Jeff Smith  
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On Behalf of both Unity National Bank and the National  
Bankers Association

Before the House Financial Services  
Oversight and Investigations Subcommittee

“Examining Discrimination and Other Barriers to  
Consumer Credit, Homeownership, and Financial  
Inclusion in Texas”

September 4, 2019

Chairman Green, Ranking Member Barr, Chairwoman Waters, and members of the Subcommittee, good morning and thank you for this opportunity to testify on potential solutions for promoting financial inclusion and strengthening financial institutions that serve LMI communities, such as minority depository institutions or “MDIs” like Unity National Bank.

I am Jeff Smith, and I serve as the President and CEO of Unity National Bank (“Unity”). Unity was originally founded in 1963, and is the only African-American owned banking institution in Texas. Unity has approximately \$104 million in assets with approximately 11,000 customers. Unity currently has three branches: one in Houston, one in Missouri City, and one in Atlanta.

Congress and federal regulators have the tools to bolster the health and soundness of our institutions whose mission remains as critical as ever. As costly and more predatory forms of credit and financial services for families and small businesses proliferate, the need for trusted, mission-oriented lenders like Unity increases. Our track record and our value proposition notwithstanding, many of our institutions are finding it difficult to survive and are in need of policy interventions that alleviate barriers to accessing capital and provide targeted relief.

## **ACCESS TO CAPITAL REMAINS THE TOP CONCERN FOR AFRICAN-AMERICAN OWNED MDIs.**

Access to capital remains Minority Depository Institutions' top concern -- particularly for African-American owned banks.

The Chicago Fed's 2018 study on capital-raising amongst MDIs underscores our long-standing challenges. Their research found that African-American owned banks had retained ***no net income*** every year from 2007 to 2016.

We believe that there are a number of steps Congress can **now** take to encourage equity investments in our institutions, including:

- Exempting MDIs and CDFIs under \$3 billion from the Bank Holding Company Act's change-of-control provisions encouraging larger investments in our institutions;
- Amending the Investing in Opportunity Act so that MDIs can be designated as Qualified Opportunity Zone Businesses ("QOZBs") and become eligible for equity investments; and,
- An investment tax credit for acquiring preferred shares in CDFIs and MDIs.

**THE COMMUNITY REINVESTMENT ACT COULD BE BETTER UTILIZED TO HELP OUR INSTITUTIONS RAISE CAPITAL, BUT IN ITS CURRENT FORM, THE CRA FAILS TO MEET OUR INSTITUTIONS' NEEDS.**

Regulators and many in the banking industry often view the CRA's flexibility as a virtue, but in our experience, the CRA's flexible standards regarding what constitutes CRA-qualified investments in MDIs partly explains why so few banks look to MDIs and CDFIs as a part of their CRA program.

While various forms of majority depository institution investments in MDIs are CRA-qualified, the types of investments that our institutions need – preferred stock purchases – receives the same treatment as other types of MDI investments. We firmly believe that stock purchases should be singled out as a priority for the kind of investment in MDIs that CRA should specifically encourage.

This prioritization could be done by Congress singling out stock purchases in an amendment to Section 2903(b) as automatically receiving positive CRA consideration and urging prudential regulators to increase the CRA credit provided for MDI stock purchases. Doing so aligns the CRA's potential as a tool to help address our top concern and sends a clear signal to CRA officers regarding the kinds of investments that will be favorably treated by federal regulators.

**CONGRESS CAN TAKE A NUMBER OF ADDITIONAL STEPS NOW TO SUPPORT  
MDIs.**

In addition to addressing access to capital, additional, targeted relief measures should be considered. Such relief should include:

- Simplifying capital ratios for community banks;
- Streamlining BSA and AML reporting and call form reporting for institutions below \$1 billion;
- Lowering the barriers to participation in the Minority Bank Deposit Program and encouraging more agency participation in the Program;
- Requiring that financial institutions acting as Financial Agents to the Treasury Department participate in Treasury's Financial Agent Mentor Protégé Program and partner with MDIs with assets under \$1 billion;
- Modernizing the Federal Deposit Insurance Act's approach toward brokered deposits making it easier for smaller MDIs to access to a more diverse base of deposits; and,
- Safely transitioning the remaining institutions out of Treasury's Troubled Asset Relief Program and Community Development Capital Initiative.

## **CONCLUSION**

We applaud Congressman Green, his leadership of the Oversight Subcommittee, and his long-standing advocacy on behalf of LMI communities and MDIs like Unity.

We lose MDIs every year despite Congress and federal regulators having a broad range of tools at their disposal to support MDIs. We cannot have meaningful conversations about financial inclusion without committing ourselves to ensuring the vitality and viability of MDIs as so many of our banks act as banks of last resort for so many in our communities.

I firmly believe that the policy interventions outlined above would radically transform the operating environment of our institutions and dramatically expand our ability to meet the growing credit needs of the communities that depend on us.

I look forward to answering any questions.