

Testimony Before The Committee on Small Business  
Subcommittee on Economic Growth, Tax and Capital Access  
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“Examining the role of Community Development Financial Institutions and Minority  
Depository Institutions in Small Business Lending”

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## Introduction

Chairwoman Davids, Ranking Member Meuser, and Members of the Economic Growth, Tax and Capital Access Subcommittee, it is a pleasure to be with you today.

I come to you today with extensive senior executive leadership experience with some of the Nation’s largest financial institutions, as a co-founder of the largest financial institution in the history of our country established and managed by African Americans, and as a co-founder of a strategic financial services firm, and, as one who has managed financial assets dedicated to investing in middle market, small and minority and distressed businesses and markets.

Specifically, I previously co-founded and served as the Chief Executive Officer of the African American founded and managed, CertusBank and its parent, CertusHoldings, Inc. Having reached the level of more than \$2 billion in assets, CertusBank operated as the largest Bank in the United States founded and managed by African Americans.

Prior to my work at CertusBank, I served as an Executive Vice President at Wachovia Corporation, which is now Wells Fargo Bank. While there, I managed a \$70 billion Retail Credit and Small Business portfolio.

I am currently the managing partner of Peachtree Providence Partners Holding Company. Peachtree Partners is a private investment and consulting firm that has an investment focus on small to middle market businesses and real estate. I am working with other business leaders and policy makers to spearhead efforts to ensure effective advocacy in Washington to support stronger incentive policies for the growth of African American and minority enterprises and entrepreneurs. Additionally, my advocacy looks for ways to expand investments in undeserved markets and communities, and African American and women-led startups including in the management of capital – which is so vital for these businesses and markets. Our efforts also include helping to support business opportunities for other minority and ethnic groups.

I come before you today as an African American businessman and entrepreneur committed to the economic growth of distressed communities. I have worked with every Administration on these issues over the past decade and a half. This includes the Administrations of President Obama, President Trump and now President Biden’s Administration.

It is in this context that I would like to share some thoughts on the state of Community Development Financial Institutions (CDFIs) and Minority Development Institutions (MDIs), as well as suggest policies to improve the flow of capital into small businesses.

### **Role in Building Wealth in Underserved Communities**

It is important to note that when we are speaking of CDFIs and MDIs, which include Black Banks, in the broader context, what we are speaking of is our national access-to-capital and financing infrastructure for minority businesses and entrepreneurs.

Quite often, these enterprises are doing and seeking to do business in the places that pose the greatest challenges and risks in the marketplace. These markets are often at the bottom of the economic ladder and separated significantly from the mainstream economy. These are the areas that are generally referred to as distressed or underserved markets and communities. These areas are reflected in what are now designated as Opportunity Zones.

The question is what makes these markets and communities economically distressed and underserved? The answer is clear: they lack access to sufficient capital investments and economic growth and activity. This lack of access to capital - which is critical to stimulate the kind of small business creation and entrepreneurship necessary to transform these distressed communities - is often at the core of the destructive social issues that arise from these communities as scholars and studies have shown for decades. The same applies whether we are talking about areas in Atlanta, Detroit, Washington, D.C., Houston, Los Angeles, Baltimore or rural Appalachia.

These communities do not have the same support or capital access system as the mainstream communities even though the businesses and entrepreneurs that exist or originate from there are the “ultimate” business risk takers. We admonish them to take advantage of what is the core of America- our unparalleled capitalist free enterprise system. But what happens when the Federal government does not ensure that the free enterprise system is there for them like it is the mainstream marketplace? What happens is this: The disproportionate economic devastation that we see in these communities persists. And these conditions are at the bedrock of much of the social dysfunction and yes, racial unrest that we are experiencing today.

Yes. I am saying that one of the vital needs of these markets and communities is economic growth and expansion. But such growth and expansion are impossible without a movement of a massively expanded number of sustainable Minority-owned and small businesses in these markets and communities. This solution is only possible with a much more robust capital and financing infrastructure for these laudable risk takers.

These communities are underserved by both the Federal government and the private marketplace in my opinion, especially when it comes to support for business formation and growth. Small businesses are the backbone of the U.S. economy. These businesses account for 99.9 percent of all businesses and employ almost 50 percent of the private workforce throughout the nation, according to the US Small Business Administration (SBA).

No business can move or grow without access to capital and customers. The role of the government in my view is to make certain that the proper infrastructure is there to ensure equitable access to capital.

During the pandemic, The Federal Reserve and Treasury did a laudable job working in tandem to make certain large financial institutions, especially big banks, were able to meet the needs of their large and mid-sized clients through mechanisms such as the Commercial Paper Funding Facility, the Main Street Lending Program and the Primary Dealer Credit Facility among others.

In this same period, we saw the SBA administer the Payment Protection Program and Economic Injury Disaster Loan facilities but without the same efficiency. We witnessed once again that black and brown businesses were shut out of the all-important flow of capital during these programs' initial stages. Adjustments were made and the calvary was called in to help get PPP loans to those most in need. In this instance, the calvary consisted of CDFIs and MDIs. CDFIs and MDIs handled the bulk of black and brown small business covid relief efforts, in addition 60 percent of CDFIs reported serving businesses beyond their pre-existing customer base. As their clients managed the health and economic effects of the COVID-19 pandemic, CDFIs responded with flexibility and assistance. It is important to acknowledge that the playing field was not even before the pandemic but CDFIs and MDIs are critical to helping these businesses survive during covid and will be critical as the delayed effects continue to wreak havoc on these important economic engines.

I would like to note that I am not against the market and policy support we provide for our large American businesses and mainstream marketplace. We badly need that. I am saying that as the Federal government we must be as dedicated to providing the needed financing for Minority businesses and distressed communities. CDFIs and MDIs are a critical part of that equation.

## **State of CDFIs**

CDFIs have noted that their participation in Federal relief efforts was exacerbated by the lack of technological resources as only relatively large CDFIs have digital platforms for processing their loans. This is not unusual because of the business model of a number of these institutions, especially MDIs. Let's talk about Black Banks (those institutions where board and executive management are majority Black) and their role in supporting underserved communities. One hundred years ago, in 1921, 120 Black own banks were in existence across the U.S. Twenty years ago, the number had been reduced to 40, and today only 19 Black owned banks remain in operation. One might think consolidation and moves to achieve economies of scale drove this shrinkage.

However, there is only one of these institutions that has \$1 billion in assets. In an economy where there are multiple trillion-dollar banks, this is inexcusable. I can talk more about this at another time. The systemic barriers to growth for the intermediaries we expect to serve the "least of these" need to be addressed. These banks don't get a pass on their CAMELS ratings by regulators, yet we expect them to make loans in the businesses and communities that have the highest risk. Don't get me wrong, we need these institutions to be strong, however we also need to take a close look at some type of regulatory relief. This lack of scale in these banks translates into lack of resources and ultimately a scaled down effort that is available to provide capital to the underserved.

## **Solutions**

### **Dedicated Investment Vehicles**

As a member of the Opportunity Roundtable, an organization I helped found to advocate for economic growth policies for the benefit of Black communities and businesses, I worked diligently with President Trump's Administration and Democratic and Republican Members of Congress to address the economic destruction COVID wreaked on Black businesses and communities. One of the initiatives we proposed was a program called the Designated Investment Vehicle program. This entailed the creation of a government infrastructure that would not only make it more efficient for minority businesses to gain access to lending capital. The target licenses were meant for the support of Investment Funds managed by representatives of these communities to ensure greater diversity at the equity fund level and to ensure greater access to equity funding by minority entrepreneurs. Such funds with the proper government support allows businesses to take the risks needed for economic growth of these markets.

### **Support for Emergency Capital Investment Program**

The Emergency Capital Investment Program, which is administered by Treasury, is a novel idea that helps CDFIs and MDIs gain access to Tier 1 capital at favorable rates starting at 2.5%. One proposed feature of this program is that it allows these institutions that qualify for the capital to invest in Small Business Investment Corporations (SBICs). There are currently just over 300 SBICs licenses and less than 5 are in the hands of black-owned fund managers. This program could favorably increase the number of black-owned SBICs which could in turn make its way into minority-owned businesses and distressed communities. Allowing CDFIs and MDIs to not only lend to SBICs but invest as equity as well would allow for more opportunity for movement of capital in areas of need. Currently the SBA will not allow banks to invest capital received from ECIP into SBICs or SSBICs as equity due to a conflict with SBA regulation which disallows SBICs and SSBICs to receive direct or indirect equity investments from the federal government. Nevertheless, banks in receipt of TARP funds were allowed to invest in SBICs. Given the dire need of capital in the underserved market and particularly, Black communities, a provision should be made to allow CDFI and MDI banks to invest ECIP capital as equity into SBICs and SSBICs without restriction.

### **CDFIs and Opportunity Zones**

I had the pleasure of working closely with Senator Tim Scott and his staff on the Opportunity Zone legislation, so I have a good idea of the spirit and intent. Congress should consider allowing CDFIs to receive equity investments as Opportunity Zone Businesses. Allowing CDFIs to take in equity capital from Opportunity Zone investors and in-turn lend it to entrepreneurs would allow for more capital to flow into minority businesses and communities.

## **Conclusion**

Again, I appreciate the opportunity to address you this morning and look forward to any questions you may have.