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"An Economy that Works For Everyone: Investing in Rural Communities"

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HOPE, (Hope Enterprise Corporation / Hope Credit Union / Hope Policy Institute) is a Black- and Women-owned credit union, a nonprofit loan fund, and a policy and advocacy organization. HOPE is also a certified Community Development Financial Institution (CDFI) serving Alabama, Arkansas, Louisiana, Mississippi and Tennessee – a region that is home to more than a third of the nation's persistent poverty counties, most of which are rural. Of HOPE's 23 branches, 7 (30%) are located in rural, persistently poor counties.

HOPE was established to ensure that all people regardless of where they live, their gender, race or place of birth have the opportunity to support their families and realize the American Dream. Since 1994, HOPE has generated over $2.9 billion in financing that has benefitted more than 1.7 million people. From the New Markets Tax Credit, to Hurricane Katrina, the Great Recession/Housing Crisis and COVID-19, for over a quarter century HOPE has worked closely with government and bank officials to forge policy and programmatic responses to the challenges facing historically underserved people and places.

HOPE works to increase access to affordable financial services for communities that are often underserved and over-looked. Of HOPE's 35,000 credit union members, sixty-nine percent (69%) have household incomes below $45,000 and eight out of 10 are people of color. Our branches are located in areas with less public, private and philanthropic investment, with 86% in counties where the majority of the residents are Black. One-third of our branches are located in counties that have been in deep poverty for more than three decades, and one out of five are in located in towns situated in the Mississippi Delta, three of which have no other depository institution.

People, when afforded opportunity and access to the right tools, will climb the economic ladder. Yet many of our members live in communities entrenched in poverty. They lack critical infrastructure such as quality schools, grocery stores, broadband, and affordable housing, and the financial tools necessary to obtain these economic mobility-enhancing assets. These needs have been neglected for generations, as reflected by the region's acute and persistent poverty.

Prior to COVID-19, Deep South communities were already dealing with the pre-existing crises of racial and economic inequality. The current triple threat of the health, economic and social justice crises is the convergence of centuries of policies and practices that have extracted, discriminated and under invested in Deep South people and communities. As the nation seeks to recover from COVID-19, Deep South communities, especially communities of color, are now even more precariously situated on the brink of economic and social devastation. Policy decisions made today have the opportunity to break, rather than repeat this cycle of inequity.

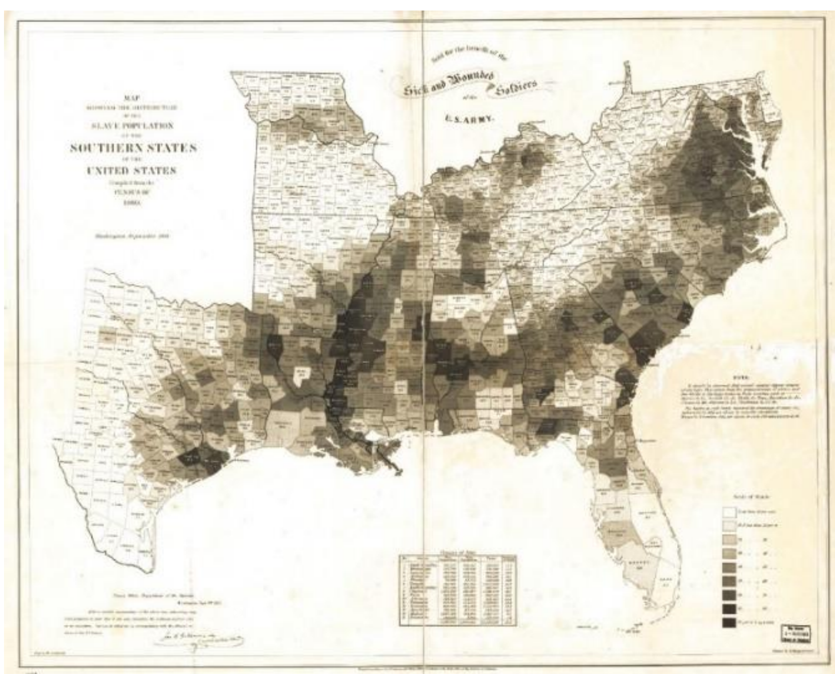
In my testimony today, I provide a context of the depths of disparities and under-investments in the Deep South, while also highlighting solutions that we know will work:

1. Increase investments into CDFIs with a track record of reaching underserved communities and those hit hardest by COVID-19,
2. Close opportunity gaps in bank lending, service, and investment in underserved communities,
3. Deploy funds in ways that accounts for existing racial and economic disparities,
4. Build and preserve wealth in rural communities, particularly communities of color, through homeownership and small business ownership, and
5. Strengthen consumer protections that prevent wealth stripping and build assets.

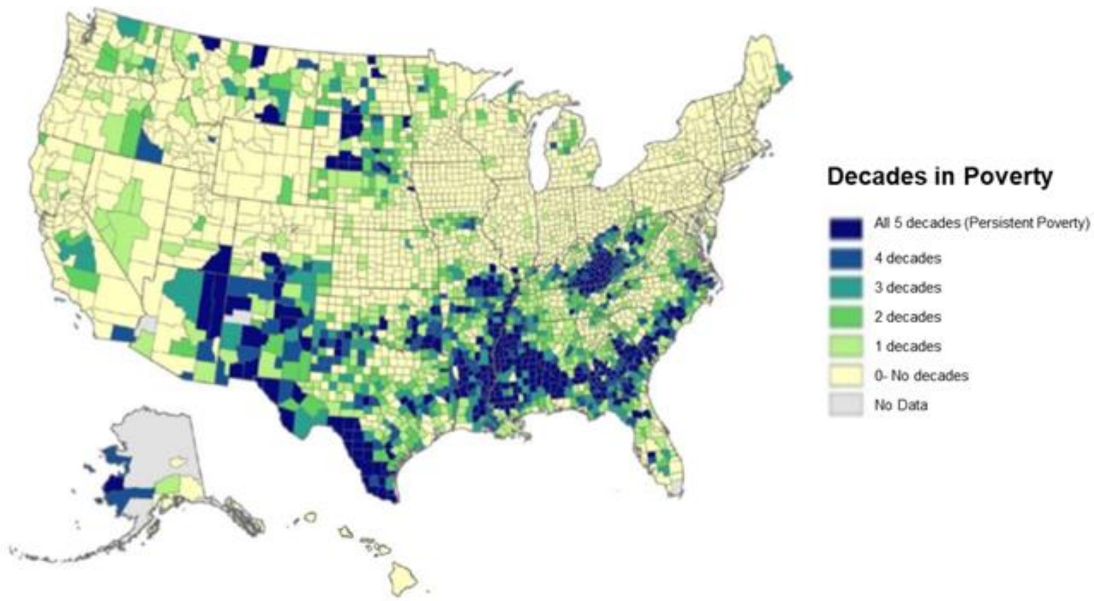
Rural Regions of Persistent Poverty Suffer from Systemic Underinvestment, Particularly the Regions that are Home to Populations Where The Majority of People are People of Color

Records from the U.S. Census Bureau in 1860 shows slave holding was most concentrated in the Mississippi, Arkansas and Louisiana Delta and the Black Belt counties of the Southeast. The map remains relevant today when placing it in alongside a map that examines the length of time over which counties have had a poverty rate of over 20% - a common indicator of economic distress used to determine eligibility for federal funding (Maps 1 and 2).

Map 1: Slave Population of the Southern States of the United States (1860)



Map 2: Counties with Poverty Rates over 20% by Number of Consecutive Decades



Source: Rural Policy Research Institute; Center for Applied Research & Environmental Studies

Persistent poverty is predominantly rural. Of the country's 395 persistent poverty counties, where the rate of poverty has exceeded 20% for thirty years in a row, eight out of ten are non-metro. Analysis by the Housing Assistance Council found that "86 percent of persistent poverty counties have entirely rural populations."[1] Persistent poverty counties are also home to a diverse cross-section of people.[2] In fact, the majority (60%) of people living in these places are people of color. Four out of ten persistent poverty counties are places where the majority of people who reside in the counties are people of color.

Due to a long history of exclusionary and extractive policies by race and place, persistently poverty areas experience other challenges as well. At least one-third have unemployment rates over 1.5 times the national average.[3] Additionally, a "health related drinking violation" occurred in approximately 42% of the counties – nearly five percentage points higher than the rate nationally.[4] Eighty-one percent (81%) of persistent poverty counties are in the bottom quartile of counties in terms of health outcomes. [5]

This underinvestment is also reflected in the banking system as well. Much of the Deep South is considered a banking desert. For example, of the 20 largest banks in the Southeast, analysis conducted by the Federal Reserve Bank of Atlanta, found that only one bank has branches in the Mississippi Delta.[6] In the absence of branches, large bank Community Reinvestment Act assessment areas fail to reach into rural communities – limiting another source of capital for redevelopment.[7] As currently structured, absent a physical location in the community, a bank has no obligation to lend or invest there. This means communities in banking deserts, such as those in the Deep South, have harder time attracting the resources needed to finance community needs such as affordable housing, hospitals, museums, or other job-creating activities. Analysis conducted by the Opportunity Finance Network underscores this phenomenon with Community Development Financial Institutions. In looking specifically at rural Community Development Financial Institutions (CDFIs), only 31 cents of every dollar borrowed by rural

CDFIs came from a bank. In contrast, over half of borrowed funds from urban CDFIs came from banks.[8] Rural communities also bear the heaviest burden of bank closures, and within rural communities those bank closures are most likely to occur in communities with a higher share of Black residents.[9]

One natural consequence of this trend is that the Deep South is home to the highest rates of unbanked households in the country. Even though nationally, the unbanked rate is the lowest it has been since the Great Recession (5%), for Black households in Mississippi and Louisiana, the rate is over 20%.[10] Likewise, for rural communities, the Deep South rate is higher than rates nationally (Table 1). Notably, over 40% of the population in Louisiana and Mississippi's rural counties are people of color. [11]

Table 1: 2019 Unbanked Rates for Louisiana and Mississippi, by Race and Rural Households

	White Households	Black Households	Rural Households
Louisiana	3.5%	24%	16.7%
Mississippi	5.5%	21%	12.6%
U.S.	2.5%	13.8%	6.2%
Source: 2019 FDIC Survey: Household Use of Banking and Financial Services			

For rural communities, particularly communities of color, the dearth of financial institutions presents a significant barrier to economic opportunity. Three-quarters of the 158 counties nationwide that have household unbanked/underbanked rates at 1.5 times the national average are persistent poverty counties.[12]

These communities face not just an absence of financial capital, but also contend with predatory lending practices. Payday and car title lenders extract over $1.6 billion in fees annually from Deep South residents trapped in loans with annual interest rates as high as 500%.[13] Rent-a-bank arrangements in which online lenders partner with out-of-state banks to subvert state consumer protection laws to make high-cost loans in the region also impose high costs on the region's residents.[14]

In addition to the weight of predatory lending, rural Deep South communities are shouldering the weight of massive debt burdens accumulated by simply trying to make ends meet. In a recent survey of HOPE members, nearly 1 in 4 (23%) said their biggest worry every day is the amount of debt that they owe. This debt includes medical debt, student loan debt, and debt incurred through interactions with the criminal justice system. Due to a range of policy decisions affecting employment, health care access, education access, and mass incarceration, among others, each of these debt burdens fall disproportionately on Black communities in the Deep South.

All of the conditions outlined above existed prior to the outbreak of COVID-19, and are now compounded by mounting back payments owed for utility, rent, and mortgage payments paused during the pandemic. Due to the long-lasting damage on credit scores, as well as the resulting psychological stress, addressing these burdens is necessary to pave the way for an economic recovery in the region.

Rural People and Places most Economically Vulnerable Prior to the Pandemic, were most Heavily Impacted by it, and most Likely to be Passed over by Relief Measures

Prior to the pandemic, the Deep South was home to some of the highest rates of liquid asset poverty in the country, meaning the households did not have the resources to manage an unexpected income loss. The percentage of Deep South families without the cushion to weather a financial emergency is greater than the national average, and the racial disparities are striking. Over 60% of Black and Latino, families are liquid asset poor compared to 40% of white families.[15]

The most economically fragile households prior to the economic shock of COVID-19 were the ones most impacted by it. In the late summer of 2020, in each of HOPE's Deep South states, over 50% of Black households had experienced a loss of employment income.[16] For Latino households, 70% in Arkansas and nearly 90% in Mississippi had experienced such a loss since the start of the pandemic.[17]

The unemployment rates have not abated either, particularly for Black and Latino workers in the Deep South. As of January 2021, more than 4.1 million people had filed for unemployment since the start of the pandemic.[18] By comparison, throughout the duration of the Great Recession, the Deep South lost half a million jobs.[19] Even though Black unemployment rates in the region had largely returned to pre-pandemic levels, the disparities were still quite vast and the post-recession gains have been wiped away by the pandemic. As of February 2021, Mississippi, Tennessee, and Louisiana had a nearly 12% Black unemployment rate.[20]

These dramatic losses of jobs and employment related income are intertwined with the pandemic's devastating impact on Black-owned businesses and the extent to which they were left out of COVID-relief efforts. [21] Nationally, between February and April 2020, more than 41% of Black-owned businesses closed, compared to 17% of white owned businesses.[22] Due to historic disparities in access to capital to grow and sustain their businesses, Black and Latino owned business, just like the people in their communities, had far less of a cushion to withstand the economic shock.[23]

The national research squared with HOPE's own experience working with small business owners in distress. Through Rounds I and II of the Small Business Administration Paycheck Protection Program (PPP), HOPE approved 2,896 PPP loans. In a survey of HOPE's PPP borrowers, while 64% overall said they were unprepared for the pandemic, for Black businesses it was over 71% compared to 47% for white-owned businesses.[24]

Despite the pre-existing financial fragility and the disproportionate economic impact on businesses of color, federal and state relief programs have consistently not been structured to provide equitable access to recovery resources. As one example, within the PPP program, microbusinesses in which the owner is the sole employee were literally not eligible to access the PPP program for the first seven days of the program as billions of dollars were deployed. In the Deep South, 96% of Black and Latino-owned business fell into this category of businesses, as did 84% of white businesses.[25]

Similar inequities occurred in the deployment of CARES Act funded state-level relief efforts to support small businesses and local governments in the Deep South. In Tennessee's Small Business Relief Program, which provided direct payments to designated businesses, 90% of the relief funds went to white-owned businesses in the state.[26] In Mississippi, despite efforts by the state legislature to create a $40 million, 60-day priority set-aside for minority and women-owned businesses, the state only deployed $2 million in the designated time frame.[27] In terms of relief efforts to local governments, in each of the five Deep South states, states distributed aid from the CARES Act Coronavirus Relief Fund to local governments on a reimbursement basis only. This reimbursement mechanism was not required by the CARES Act. As discussed further herein, it led to significant disparities in access to the money, particularly for communities in the Black Belt and Delta regions, even as they experienced the greatest impact of COVID-19.

The Great Recession provides important lessons about the trajectory of recovery for this crisis. The three Delta states in our region – Arkansas, Mississippi, and Louisiana – took significantly longer to recover than the US as a whole.[28] Mississippi, for example, did not reach its re-precession job levels until a decade later, in October 2019.

This structural gap in financial infrastructure is a necessary foundational understanding for the existence of gaps and inequities in the region. It must also be accounted for when contemplating the flow of future investments in the region, both in terms of whether financial institutions are even present to help disburse them and in terms of what other investments are needed to make up for their absence. Policy decisions made today have the chance to create a different, shorter, more inclusive recovery from this crisis.

For Rural America to Prosper, Strategies for Full Recovery Must Reach Deep South Communities of Color

In light of the history of our region, the resiliency of the people who live here, and the disparate impact of COVID-19, the following section outlines solutions to ensure necessary resources reach the most-economically distressed regions of the country.

<u>1. Increase investments into Community Development Financial Institutions (CDFIs) with a track record of reaching underserved communities and those hit hardest by COVID-19</u>

As the U.S. Treasury moves to deploy an unprecedented $9 billion in funding through the Emergency Capital Investment Program, $3 billion for CDFI rapid response and new levels of New Market Tax Credit allocation in each of the next five years, the agency must put safeguards in place so as not to perpetuate existing disparities within the CDFI sector. Partnership with CDFIs with long track records of reaching underserved communities and communities of color will ensure the resources reach people and places most in need.

CDFIs, long on the front lines of meeting the financial needs of underserved communities, continue to serve as important drivers of economic mobility in rural economies and among people of color. For decades, CDFIs in some of the most economically distressed regions of the country have been addressing the employment and housing, banking and infrastructure needs of local people and places. They also model solutions that work and can be brought to scale with either increased investment or replication by other actors in the financial system.

Despite evidence of success by CDFIs located in and reaching the most economically distressed communities, resources lag in comparison to other CDFIs. For example, even though minority-led CDFIs have performed better in reaching minority communities, which often have the greatest need for financial serves, these CDFIs have historically had the least amount of resources to do this work. Over the last 15 years, white-led CDFIs have had a median asset size twice that of minority-led CDFIs. In some years, it has been three times as high.[29]

While CDFIs are mandated to serve low-income communities, this alone has not been sufficient to ensure CDFI lending reaches into communities of color. Stark examples of this deficiency are evident in Mississippi, where so much of the state qualifies geographically as low-income, and nearly 40% of Mississippi's population is Black. Using 2019 HMDA mortgage lending data, HOPE found that among the 27 CDFI banks in Mississippi engaged in mortgage lending in the state, 71% of mortgage loans went to white borrowers while only 13% went to Black borrowers.[30] This is lower than the statewide rate of mortgage originations in 2019 to Black borrowers at 17%. By contrast, Hope Credit Union made 83% of its mortgage loans to Black borrowers.[31] Similarly in Louisiana, collectively all 14 CDFI Banks reporting HMDA information made 15% of their mortgage loans to Black borrowers in 2019. [32] However, when Liberty Bank, a minority depository institution which made 76% of its mortgage loans to Black borrowers, is excluded from the analysis, the percentage of mortgage loans to Black borrowers by CDFI Banks in Louisiana drops to 9%.

Another significant example includes the New Market Tax Credit (NMTC) program which must improve its track record of working with minority-led or minority-controlled community development entities (CDEs), and funding projects in rural, persistently poor communities. Since the launch of the NMTC program in 2003, HOPE has had the opportunity to invest $212 million in NMTC financing in the communities we serve, often with outcomes contrasting the program as whole. Putting a finer point on the need for more equitable distribution into rural, poor communities, between 2003 and 2017, 65% of NMTC allocations in persistent poverty areas have been concentrated in six urban communities.[33] By contrast, just 5% of NMTC allocations during this time have been invested in rural persistent poverty counties.

The outcomes of which communities benefit from NMTC investments are shaped in many ways by the development entities that receive the allocations and make decisions about which projects to fund. As one example, the percentage of NMTC allocations going to minority-owned or minority-controlled CDEs shows great need for improvement. From 2012 to 2019, the percentage in terms of dollar amount of allocations provided to minority CDEs, has ranged from 5% in 2014 to a peak of 16% in 2017. [34] To put these numbers in context, in 2017, minority CDEs received $576 million dollars while white-led CDEs received over $3 billion.

As urged by the African American Alliance of CDFI CEOs, HOPE, and others, the CDFI Fund must take concrete steps to increase funds to minority-controlled CDEs as it moves to deploy historic funding levels of NMTC allocations – $5 billion for each of the next 5 years.[35]

2. Close opportunity gaps in bank lending, service, and investment in underserved communities

Traditional banks by far have the greatest ability to invest in ways that close the financial services gap, both directly and through investment in CDFIs.[36] One mechanism to facilitate increased investment in underserved markets by mainstream banks is the Community Reinvestment Act (CRA), both in providing banking services to individuals as well as financing for things like affordable housing and economic development in low-income communities. At the same time, the CRA has its limits. If a bank has no physical presence in a region, then it is not held accountable for reinvesting there. As a result, entire regions, such as rural communities in and outside of the Deep South, often lie out of reach of the CRA's incentives. Another limitation, as currently structured, is that the CRA does not reach its full potential in the incorporation of race in its evaluation of bank performance; even though it was enacted to address banks' racially discriminatory redlining practices. Currently, more than 98% of banks pass their CRA exam, despite the glaring racial and economic inequities in the banking system.

The CRA should be significantly strengthened to increase bank lending, services and investment – as much as three fold – in low-income communities and communities of color. In addition to increasing the amount of bank activity, a reformed CRA must also ensure these investments actually reach people and communities that have both been historically underserved and divested of their resources.

Some ways the CRA could be strengthened include:

- Create assessment areas beyond the physical location of bank branches. This is particularly important in regions like the Deep South and other rural persistent poverty areas lacking large bank branches. These additional assessment areas should be drawn based on a mix of lending **and** deposit activity.
- Allow banks to receive CRA credit for community development investments outside of their assessment areas, as long as the investments are targeted enough to ensure these investments reach economically distressed communities and communities of color.
- Investments in CDFIs and Minority Depository Institutions (MDI) serving persistent poverty areas, communities of color, and designated areas of need should be meaningful and prioritized. Meaningful investments include equity investments and secondary capital. Prioritization of areas should be drawn based on low-levels of lending activities in certain communities. CDFIs and MDIs that also meet the definition of "minority lending institution" as defined by the Consolidated Appropriations Act of 2021 should be prioritized.[37]
- Ensure greater accountability for small banks, particularly those serving rural areas.

More detailed recommendations on how the CRA can and should be strengthened to reach rural persistent poverty communities are included HOPE's comments and those of the Partners for Rural Transformation to the Federal Reserve.[38]

3. Deploy funds in a way that accounts for existing racial and economic disparities

Deployment of CARES Act funds, ranging from small business relief aid through the Paycheck Protection Program, or the deployment of state-level Coronavirus Relief Funds to local governments, provides case studies in ways in which COVID-relief funds repeated and reflected existing disparities in our region. As policy makers seek to deploy significant resources from the American Rescue Plan, or future infrastructure spending, it is critical to deploy funds though equitable means which close gaps.

As HOPE has engaged in pandemic recovery activities, specifically through the Small Business Administration Paycheck Protection Program and the CARES Act, the organization has found itself on the front line of using its capacity to ensure a more equitable distribution of the relief funds to communities otherwise unable to access it. Lessons learned from working with both programs are outlined below.

Small Business Administration Paycheck Protection Program

In the midst of the COVID-19 pandemic, the importance of CDFIs with a track record of serving communities hardest hit by this crisis is clear.[39] For example, in 2020, CDFIs in Mississippi and Louisiana made seven times more small PPP loans (under $150,000) than the five largest banks, combined.[40]

As just one example, HOPE's experience as an MDI and Black-led CDFI deeply involved in PPP demonstrates the importance of having such entities resourced at meaningful levels to service businesses owned by people of color. Between April 2020 and April 2021, HOPE has funded 4,000 PPP loans in the South, deploying over $110 million in forgivable loans and supporting over 12,600 jobs. Nearly 60% – $64 million – flowed to Southern counties where the majority of residents are people of color, with a median loan amount of $14,200. Of our PPP lending in rural communities, over 60% of the volume went to communities of color. One-third of HOPE's PPP loan volume flowed to persistent poverty counties.

On numerous occasions, HOPE was contacted by Black-owned businesses and rural nonprofit organizations that had approached mainstream financial institutions offering PPP loans only to learn that they would not be served. For example, a Boys and Girls Club in a rural, persistent poverty county in Alabama found itself in the position on having to lay off 13 employees in response to the first shut down in 2020. As Round I of PPP rolled out, the organization put in an application with a large bank –which did not respond to the application. The Boys and Girls Club then went to a local community bank to apply for assistance. The bank, one of only three in the community, shared that it would not help any organizations with which it did not have an existing relationship. HOPE ultimately funded the loan and the employees were able to be retained.

These stories were a constant narrative during our PPP lending process, an extension of a banking system that has historically failed to serve communities of color and low-income communities with the same attention as others.

In a December 2020 survey of HOPE's PPP borrowers, more than one in three borrowers (36%) decided to take a PPP loan with HOPE because they lacked another option or were declined by another bank. In the words of one member, "At one bank, 'I got the run around and [they] told me I had to reapply. They "blew me off.'[41]

Even with access to the program, many HOPE borrowers still did not receive its full benefits. One significant barrier was the use of net profit/loss, rather than gross income, to underwrite loans to small businesses that use Schedule C. This resulted in artificially low PPP loan amounts for small businesses in our region. HOPE is thankful for the recent solution enacted by the Small Business Administration to allow PPP borrowers whose funds are funded after March 3, 2020 to utilize gross income and thus benefit from larger PPP loan amounts.[42] However, inequity persists. In the December 2020 Consolidated Appropriations Act, Congress made such as change retroactive for certain ranchers and farmers, but not for other small businesses.[43] The lack of parallel retroactivity for borrowers' like HOPE's – small business of color in the Deep South – disparities in access to necessary relief funds remain and will reverberate for years. About half – over 1,300 of our 2020 PPP portfolio were independent contractors, sole proprietors, or gig workers – so very likely Schedule C borrowers. Many had loans well under $10,000. Currently, HOPE is receiving several calls a week from borrowers who received a 2020 PPP loan or a fully funded loan this year before March 3 asking to see if they can benefit from the Schedule C solution, and we have to tell them they cannot. As just one example, for a 2020 borrower last year who recently called, if she had been able to use gross income, it would have increased her loan by $10,000. This experience also provides an important lesson for future efforts: to ensure the smallest businesses have full and fair access to future investments, and that gaps in this program underscore the need for more support for those underserved by it.

The PPP served as a lifeline for many of HOPE's PPP borrowers with 50% saying they would have 'closed down' without assistance.[44] One borrower predicted what might have happened if he had not received a PPP loan: "[I] probably would be put out of business, would not have been able to catch up with rent. I would probably be homeless as well." The significance of the PPP funds to the businesses that received assistance underscores the importance of supporting the future needs of those who could not access it, as well as those that did not receive the full benefits of it due to its structural design flaws.

Coronavirus Relief Aid to Local Governments in the Deep South

The challenges encountered in the deployment of state-level CARES Act Funds serve as important lessons learned, both for structuring programs in a more effective way in the future and underscoring why rural persistent poverty areas, particularly communities of color, still need more resources to recover from COVID-19. They are also particularly critical in the context of the trillions of dollars allocated for recovery, for government agencies charged with the distribution of funds, to understand the realities of small, rural communities to ensure the funds are actually accessible.

The programs created for the Deep South states for local governments were based on a reimbursement model which made the funds difficult to access. As a result, small, rural towns in low-income communities, such as those in the Delta regions of Louisiana and Mississippi, and the Alabama Black Belt without pre-existing resources to purchase personal protective equipment (PPE) and other pandemic-related response items were most affected.

In a recent analysis, the Hope Policy Institute reviewed the monies deployed to local governments in Louisiana through this reimbursement model. It shows vast racial disparities in poor rural parishes. Majority people of color parishes that are also rural and areas of persistent poverty received only a third (31%) of the funding allocated, where as their white counterparts received 74% (Table 2).[45] In dollar amounts, rural, persistent poverty, majority people of color parishes only received 6.9% of similarly situated white counties.

Table 2: Percent of CARES Act Local Government Relief by Amount Received Compared to Amount Allocated and Requested by Persistent Poverty and Rural Parishes, by Race

	Original Allocation as of 10/1/2020	**Total Received**	**Amount Requested**	**% of Total Allocation Received**	**% of Amount Requested Received**
Persistent Poverty, Rural, Majority People of Color Parishes (5)	$8,344,651	$2,601,911	$8,132,962	31%	32%
Persistent Poverty, Rural, White Parishes (17)	$50,100,563	$37,982,677	$51,993,230	74%	73%
Source: Hope Policy Institute and Power Coalition for Equity and Justice, "Racial Inequities in the Distribution of Louisiana's Coronavirus Relief Funds: A Report for Community Leaders"					

Local governments in the Alabama Black Belt faced similar challenges in accessing funds through this reimbursement model. This became a nearly insurmountable barrier for economically distressed cities and towns in the Black Belt, which were also hard hit by COVID-19. HOPE and the Black Belt Community Foundation overcame this barrier by setting up a revolving loan program, where the Foundation advanced the towns up to $50,000, which was then repaid when the towns were reimbursed by the state. Through this partnership, HOPE and the Black Belt Community Foundation, with the support of philanthropic partners, channeled $1 million to 23 Black Belt communities. In one town, the relief made available through this structure ($24,000) accounted for half its town budget, an amount that would have been impossible to outlay for the purposes of seeking reimbursement. Even with this model in place, eligible towns still did not receive all that was needed.

The experience and challenge of small towns accessing relief dollars through reimbursement requires reconsideration. While states were not required to make these funds available on a reimbursement basis, many chose to run the programs in this manner creating barriers for the least resourced communities.

<u>4. Build and preserve wealth in rural communities, particularly communities of color, through homeownership and small business ownership</u>

Homeownership

The vestiges of historic patterns of discrimination and the work that still remains to ensure fair housing opportunities are evident in the homeownership gaps between Black and white households in the Deep South. Disparities persist at every stage: originations, denials, pricing, and foreclosures. In 2019, the percent of loan originations for Black borrowers in Deep South states substantially trailed the percent of population represented. In Mississippi, Black borrowers earning over $150,000 experience a denial rate (34%) that is higher than for white borrowers earning between $31,000 and $50,0000 (21%).[46]

In addition to fair lending concerns, there are particularly unique challenges in serving rural communities. These not new, but ones consistently that have consistently plagued our region. Challenges in the market include the need for small mortgage loans, overcoming barriers of student loan debt, people with thin credit or no credit files, the need for downpayment assistance, and tools to preserve homeownership among those already owning a home. These challenges are further exacerbated by the disconnect between the products and requirements of the GSEs and the needs of our communities; one example includes ongoing difficulty obtaining appraisals that meet GSE requirements, thus depriving potential homeowners of the benefits of the capital that other communities can access.

HOPE fills these gaps and meets these challenges through products and practices designed to meet the needs of our borrowers and communities. These approaches include manually underwriting loans, considering nontraditional indicators of credit repayment history, and discounting deferred student debt. In addition, we offer a 100% loan-to-value product, as many low-wage earners have the cash flow for a monthly mortgage payment, but lack the ability to save for a down payment. Between 2007 and 2017, HOPE's overall portfolio grew by more than 600%, with the percentage of loans made to borrowers of color increasing from 55% in 2007 to 81% in 2017, with a loss rate of only 0.26%. HOPE's current mortgage portfolio is majority people of color, primarily Black borrowers. In 2020, 86% of HOPEs mortgage loans went to minority borrowers and 83% were to first time homebuyers.

One of the strategies for advancing homeownership among people of color includes down payment assistance programs. Between 2019 and 2020, through a NeighborWorks funded down payment assistance program conducted in partnership with Wells Fargo, called NeighborhoodLIFT, HOPE provided down payment grants of up to $10,000 to 257 Mississippians, a quarter of which were in rural communities. Expansion in the availability of down payment assistance would significantly increase access to homeownership in rural persistent poverty communities and communities of color.

The pandemic has taken a toll on HOPE's homeowners. Since the beginning of the pandemic, over a quarter of HOPE's mortgage loan portfolio was placed in forbearance at some point. For context, in June 2020, the national rate of mortgages in forbearance was 8.55%.[47] As of March 31, 2021, 13.6% of HOPE's mortgage borrower are in forbearance or deferment, a sign of the continued economic struggles. While HOPE's borrowers are in forbearance and deferment, HOPE continues to make escrow payments on borrowers' behalf. In the coming months, this will create worry both for borrowers and lenders, as forbearance periods end and as borrowers still struggle to make ends meet. When payments resume, spreading out the deferred payments and the escrow may lead to increased monthly payments. Whether the region, the industry, and mortgage borrowers are able to transition with the necessary resources and support will have significant impacts on the perseveration or loss of Black homeownership.

As the U.S. Treasury deploys Homeownership Assistance Funds to the states, and the CDFI Fund deploys its Rapid Response Program and Emergency Capital Investment Program, steps must be taken to ensure resources reach the households hardest hit by the pandemic and the financial institutions that serve them. Failure to do so may lead to a repeat of the harms of the Great Recession, which not only resulted in the loss of billions of dollars of wealth from Black households and communities of color, but also in the decline of minority-led financial institutions most closely tied to these communities.[48] At the same time, as efforts are underway to support existing homeowners, significant new resources, such as down payment assistance, must advance Black homeownership and homeownership in rural persistent poverty communities.

Small Business Ownership

The challenges faced by small businesses accessing capital are present generally among small business in our region. In Arkansas, for example, from 2017 to 2020, just 1.5% in SBA 7(a) loans went to Black businesses, even though Black-owned businesses comprise 9% of businesses in the state.[49] Notably, over 60% of Black-owned businesses in Arkansas are owned by women, and are primarily located in lower-income areas.[50] A 2019 study outlines disparities in Arkansas minority entrepreneurs' experiences in access to capital (Table 3).[51]

Table 3: Access to Capital for Minority Owners in Arkansas

	Minority Entrepreneurs	**White Entrepreneurs**
Reliance on Personal Funds to Start Businesses	74%	57%
Denied for a Loan in Past 3 years	78%	45%
Felt Supported by Lending Institutions	50%	80%
		Source: Arkansas Small Business Access to Capital Study

HOPE, and other CDFIs committed to serving these regions, demonstrate ways to fill these gaps through meeting the needs of these small businesses on a day-to-day business. This meant CDFIs with these experiences were well-positioned to meet the overwhelming needs for vital relief during COVID-19. For example, in 2020, over 75% of HOPE's commercial and small business loans were to minority and women owned businesses.

The long-existing disparities in access to capital, the impact of COVID-19, and disparate outcomes of PPP should guide the implementation of the development of new policies and programs. For example, as the Consumer Financial Protection Bureau moves to finalize small business fair lending rules under Section 1071 of the Dodd Frank Wall Street Reform and Consumer Protection Act, it must be implemented with the recognition of current disparities in order to craft a final rule best positioned to help alleviate them.[52] The Small Business Administration should increase the accessibility of its programs and products to historically underserved businesses, as should banks. Increasing investments into CDFIs and MDIs with track records of lending in diverse communities is another critical part of the strategy to increasing capital to minority-owned businesses, particularly those in persistent poverty regions. Finally, as federal dollars are deployed, such as through the renewed State Small Business Credit Initiative or state and local government infrastructure projects, these significant sources of capital, if deployed equitably, could fuel the growth of small businesses in the most economically distressed regions of the country.

Supporting small and minority-owned businesses is a critical part of the strategy for a robust and equitable rural economy. Small businesses of color are more likely to employ people of color; as such their growth is connected to reversing the COVID-19 related employment losses.[53] Additionally, closing the small business capital gap strengthens the vitality of the economy as a whole by serving as a pathway to close the racial wealth gap. Growing and supporting Black entrepreneurs is key to building wealth in Black communities. While white adults have 13 times the wealth of Black adults, the gap closes to three to one when comparing the median wealth of white business owners to Black business owners.[54] Ultimately, closing the racial wealth gap has the potential to increase the national Gross

Domestic Product (GDP) between $1 and $1.5 trillion by 2028.[55]

5. Strengthen consumer protections that prevent wealth stripping and build assets.

Despite the resilience of Deep South communities, extractive debt practices remain a significant factor in the economic mobility of rural households in the Deep South. Rural communities are plagued with the interconnectedness of low-incomes, and oppressive debt that reinforce cycles of inequity. Policy makers must account for the pervasive racial and economic inequality, and prioritize protection from predatory lending and debt-related abuses.

Payday and car title lenders strip away from $1.6 billion a year from the Deep South states, and $8 billion nationally.[56] This wealth-extraction can be curbed with federal and state laws, such as a 36% rate cap and rules by the Consumer Financial Protection Bureau that ensures lenders assess a borrower's ability to repay these loans without defaulting or re-borrowing. As one example of the common stories in our region: A 70-year old woman who relies on Social Security for her primary income was trapped in $10,000 title loan on a car owned free and clear. The payments were $525/month where her monthly income is $1,300. HOPE was able to get her out of this loan, which literally put hundreds of dollars back into her pocket, and protected her car from being seized.

Though four of the five states in our region do not protect against the harms of these loans, the state of Arkansas does. With its 17% rate cap, Arkansas saves its residents over $139 million a year annually.[57] The benefits of Arkansas's law are documented in a recent report about how borrowers are faring several years after the enforcement of the rate cap. As one person said, they are doing "[m]uch better financially. You don't continue to repeat the vicious cycle."[58] Unfortunately, Arkansas' state law is being undermined by a recent rule by the Officer of the Comptroller of the Currency (OCC) which facilitates "rent-a-bank" arrangements between banks and online lenders to make loans at rates significantly higher than allowed by state law.[59] HOPE members have been trapped by loans facilitated by rent-a-bank partnerships, putting their economic success in jeopardy and thus frustrating our mission to build wealth among low-income communities and communities of color in the Deep South. [60] For these reasons, HOPE supports the Congressional Review Act resolution nullifying the OCC rule facilitating these harmful loans which undermine the state laws and threaten the economic security of our region.

Other harmful debts are also pervasive in the communities we serve. Deep South rural communities now have higher rates of student loan delinquency than rural communities elsewhere. Nationally, 17% of rural student loan borrowers in are delinquent, but for each of the five Deep South states it is 20% or higher.[61] In Mississippi, nearly one in four (24%) of rural student loan borrowers are delinquent, and 65% of all student loan borrowers in the state live in rural communities.[62] Medical debt is also of significant concern to the borrowers in communities we serve, particularly in places like the Mississippi Delta.[63] Finally, since 2009, debt imposed on people due to their interactions with the criminal justice system has doubled in the last decade, to a staggering $4 billion.[64] As such, protections like student loan debt forgiveness, discharging and reducing criminal justice debt, and protecting against abusive debt collection practices are a necessary part of the equation for the economic recovery of the Deep South.

Conclusion

People in rural areas know what solutions work best for their communities, and have consistently demonstrated their capability of doing it, most often with significantly fewer resources than other communities. CDFIs with track records of reaching and working in partnership with communities of color and rural communities model solutions that work. With adequate resources supporting these institutions, and increased commitment by others to do the same, it is possible to ensure prosperity and mobility in the most economically distressed communities in rural America.

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