"Unfinished Business: A Review of Progress Made and a Plan to Achieve Full Economic Inclusion for Every American"

Written Testimony of

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before the

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Subcommittee on Diversity & Inclusion

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Thank you, Chairwoman Joyce Beatty, ranking member Ann Wagner, and distinguished members of the Subcommittee on Diversity and Inclusion for extending this generous invitation to speak before you.

My name is Debra Gore-Mann. I am the President and CEO of The Greenlining Institute.

Founded in 1993, The Greenlining Institute is committed to building a just economy and we envision a future where communities of color can build wealth, live in healthy places filled with economic opportunity and are ready to meet the challenges posed by climate change.

Greenlining origins comes from the antidote to the discriminatory practice of redlining.

While redlining was banned in 1968 with the Fair Housing Act its effects are still lingering and are persistent and pernicious.

We thank the committee for allowing Greenlining to contribute to identifying solutions to achieve full economic inclusion for every American.

The pandemic, and now inflation, war, rising interest rates, supply chain disruption, and most importantly, climate change, has amplified the awareness and we now see the significant racial disparities in our economy every day. Going into the crises, Black and Latinx households had significantly smaller wealth cushions to fall back on than the average American household. These forces now in their third year have redrawn the map of the U.S. economy, reshuffled its labor force, and reupped the toolkit available to its policy makers. All of these shifts appear likely to outlast the health crisis that triggered them.

To help us achieve solutions we have much more access to data that helps provide more targeted approaches and choice points that can create specific outcomes. We now have much more data science, more predictive analytics (twinning), smart data and GIS built by computer-based tools used to help us establish different pathways to create prosperity.

What this data is consistently showing us, is that we actually have two different economies in our nation. That's why when these shocks happen in America, not all Americans experience the impacts the same.

There's the economy of higher-income, mostly college-educated white-collar workers: people who can still work from home.

Then there's the economy of lower-wage, predominantly non-college-degreed, blue- (or pink-) collar workers. These are people once employed in restaurants, bars, hotels, salons, gyms and retail stores, who generally must show up in person, but whose customers are slow to return.

When considering solutions, we must address how much longer the two economies can continue diverging, before a depressed economy begins to weigh down the buoyant economy.

There need for greater diversity at all levels of financial institutions, its products and its services.

The Financial system has created an uneven playing field contributing to income, wealth, and homeownership disparities.

The National Association of Real Estate Brokers' recent report stated, the average white family held 12 times the wealth of the average Black family, and home equity is the largest source of wealth for both Black and white households.

But we cannot fully address diversity in financial services if we are not prepared to address the future of the industry.

First, we must consider bank consolidation - Two thirds of banking institutions have disappeared since the early 1980s with a substantial portion of the loss due to mergers and shifts in the industry toward online financial services and resulting in an ongoing downward trend in the number of customer facing branch locations.

These consolidated financial institutions must commit to diversifying their management in community benefit agreements and we need the support of federal regulators to enforce CBAs.

Greenlining's Diversity, Equity, and Inclusion Framework shows that when companies are intentional about creating diverse, equitable, and inclusive work environments, they help to correct income disparities that inform broader economic conditions in marginalized communities.

Progress and where it's been made

Where real progress is being made is in entrepreneurship – which has seen an unprecedented surge since the pandemic.

The entrepreneurial spirit is alive across the America, with almost three-quarters of U.S. counties reporting an increase in the number of businesses. Professional services and freight trucking were among the fastest growth areas. We must make sure that entrepreneurs have fair and equal access to various forms of capital.

FinTech

FinTech, or non-bank mortgage lenders that operate substantially online, utilizing technology and who do not offer traditional banking services are increasingly dominating the home purchase lending space BUT remain largely unregulated; Nonbank lenders are more likely to make home loans to low-income borrowers than traditional banks—with both conventional and government-subsidized loans

We need to ensure all financial services are monitored and regulated to avoid any particular sector becoming a bastion of consumer exploitation.

Climate Finance

We have reached a tipping point with regards to climate change in the world.

We are now witnessing climate change as a threat multiplier for communities who already carry the burdens of disinvestment and low opportunities for improved economic outcomes first established by historic redlining.

We know that frontline communities, are especially vulnerable to the impacts of climate change because of decades-long, pervasive socioeconomic conditions that are perpetuated by systems of inequitable power and resource distribution.
We are creating within our country both climate and economic refugees.

Communities of color and LMI communities are the most vulnerable to the direct effects of climate change; investments to counteract these effects must prioritize these communities first and foremost if we are to tackle them head on.

Financial services institutions when looking to make investments to address these challenges should utilize publicly available data tools like the Environmental Protection Agency's (EPA's) Environmental Justice Screening and Mapping Tool (EJScreen) to identify our most vulnerable communities.

In doing so, the Committee should encourage regulators to assess institutions not just on their willingness to invest in climate-related projects but in how well it is being targeted to communities most in need and most at-risk.

We commend the committee for scrutinizing and holding accountable federal regulators and industry leaders to ensure equity, along with diversity and inclusion, be front and centered, and that the work is ongoing.

While we have only begun to share our multi-faceted approach to achieving full economic inclusion, the Greenlining Institute appreciates the subcommittee's attention to measuring and taking action on diversity and inclusion in banking and related financial sectors. We are encouraged by the unprecedented discussions that have taken place to date and look forward to answering any questions you may have.

Thank you.

ATTACHMENTS

About The Greenlining Institute

Founded in 1993, The Greenlining Institute works toward a future when communities of color can build wealth, live in healthy places filled with economic opportunity, and are ready to meet the challenges posed by climate change. Our multifaceted advocacy efforts address the root causes of racial, economic, and environmental inequities in order to meaningfully transform the material conditions of communities of color in California and across the nation.

At Greenlining, we use diversity, equity and inclusion to close the racial wealth gap in two ways. First, we advocate for increased access to products and services for communities of color in various industries, including housing, small businesses, technology and over the past ten years our deep work with climate change with a focus on affordability, accessibility and adoption for communities left behind. Second, we ensure people of color are fully included in and benefit from job and wealth creation in those same spaces.

About the President & CEO of The Greenlining Institute

I come from a biracial family where my father was Black and my mother was Japanese. I am the proud daughter of a father who served in the US Air Force for 25 years where he met my mother while stationed in Okinawa, Japan. I am equally proud to be the daughter of my mother who left her family and her country to raise a family while still having to clean other people's home to help provide her children with a better life.

I am also a direct beneficiary of many important U.S. policies.

- GI bill that paid for my father's education
- Title IX where I was a Division 1 basketball player from Stanford
- I was a recipient of Pell grants based on our family's exceptional financial need
- Veteran benefits were awarded to my mother once my father died at the early age of 54 years old that sustained her until her passing.

My professional career spans both the private sector and public service. I have an engineering degree and an MBA both from Stanford University. I worked for over a decade in investment banking and international large infrastructure project finance before working in the nonprofit sector focused on providing resources and removing barriers for at-promise communities who work to build better economic lives for themselves, their families and their communities.

I currently serve on the Federal Reserve Bank of San Francisco 12th District Community Advisory Council (CAC) where we serve as an important source of information to President Mary Daly and her exceptional staff on current and pending developments in the Twelfth District with an emphasis on underserved and lower-income communities. Next year, I will serve as the Council Chair.

I also serve on the Pacific Gas & Electric California Community Advisory Group and the California Organized Investment Network (COIN) shall serve as a national model to provide leadership in increasing insurance industry investment in underserved and rural communities throughout California. The Board also advise COIN on the best methods of increasing insurance investments while providing fair returns to investors and social benefits to communities.

Discussion

We commend the committee for scrutinizing federal regulators and industry leaders to ensure diversity and inclusion are front and center, but the work must be ongoing.

The work of this committee must continue to apply pressure on both financial services institutions and agencies alike to ensure what progress has been made stands the test of time and that any new actions do not fall short of needs of diverse communities.

This need was evident this past summer when the three major regulators overseeing the implementation of the Community Reinvestment Act proposed joint rules to update this landmark law but fell short of fully addressing the need to include race as a major consideration of the regulations. The only way the financial services sector is going to make real progress in meeting its obligations to reverse the long-lasting effects of redlining is to ensure the practice of equity is deeply embedded at all levels of their organizations.

In the private sector, this pressure must focus on compelling financial institutions to live up to their obligations to serving their communities. These commitments often take the form of Community Benefits Agreements negotiated through community engagement to best represent the on-the-ground financial needs of diverse and underserved communities. In the past year alone, Greenlining participated in several of these negotiations that ultimately secured commitments of $168 billion in 2022 for communities in the wake of ongoing bank consolidations. These agreements, while exceptional and impactful at driving dollars where it's needed most, are only part of the solution. The demand to make these investments cannot only come from voices making demands from the outside. They must be core to the operations of these institutions, a major value shift that can only be achieved if the real need and diversity of experience of the communities they have historically failed to serve is reflected from within.

Flow of dollars to neighborhoods are great, but community voice from within is best to guarantee investments go where they are truly needed, and this can only be achieved through greater diversity and inclusion across the sector.

The need for greater diversity at all levels of financial institutions must be the priority. Financial system has created an uneven playing field contributing to income, wealth, and homeownership disparities.

The National Association of Real Estate Brokers' recent report stated that in 2020, the average white family held 12 times the wealth of the average Black family, and home equity is the largest source of wealth for both Black and white households, the report says.

In addition, the report added that the homeownership gap between black and white families had increased from 24 percent in 1970 to 30 percent today.

In California, this has contributed to the state now having the one of the lowest rates of homeownership in the country behind only the District of Columbia and New York (Source: U.S. Census Bureau, Current Population Survey/Housing Vacancy Survey, March 15, 2022.

GLI's Diversity, Equity, and Inclusion Framework shows that when companies are intentional about creating diverse, equitable, and inclusive work environments, they help to correct income disparities that then inform broader economic conditions in marginalized communities.

For financial institutions especially, the leadership and senior management should reflect the communities they serve to effectively build trust with consumers and make capital and financial services accessible.

Therefore, hiring and retaining staff from diverse communities should be of utmost importance to financial institutions who impact access to financial services in these same communities

This commitment to diversity and inclusion can and should be encouraged from the highest levels of government as well. GLI helped lead the fight for SB 17 earlier this year, which was ultimately incorporated into an executive order issued by Governor Newsom, an order that establishes a Racial Equity Commission in the state and enshrines the state's commitment to promoting racial equity and addressing structural racism in all its facets. California's commitment should be considered a model for other states and the federal government and is certainly aligned with the work being done by this committee through the various Offices of Minority and Women Inclusion within the regulatory offices.

Gender diversity is also critical to the success of work environments but severely lacks across financial services.

Research from McKinsey and LeanIn.org finds that while just over half of entry-level financial services professionals are women, that percentage shrinks as roles become more senior—especially for women of color. Representation of Black, Latina and Asian women falls by a staggering 80% between the entry-level and the C-suite. In addition, for every 100 men promoted to manager roles in the financial services field, only 86 women achieve the same milestone. Even back in 2015, a PwC study found that among female Millennials working in the financial services profession, over 70% believed that while their organizations talked about diversity, inequality of opportunities persisted; half believed that promotions were indeed biased in favor of men.

Where Progress Has Been Made

Smaller scale progress is being made within credit unions, who are making DEI a priority.

Changing internal practices has seen by [Greylock Federal] credit union's workforce change from 2% to 3% of employees identifying as people of color, to more than 15% this year.
Practices implemented:

- Including inclusive language (gender pronouns), publicly acknowledging banks built on ancestral land, democratizing internal hiring structures, and ensuring the board is representative of their DEI priorities.
- Regulatory agencies like OCC and the Federal Reserve who have shared their commitment to D&I efforts by improving their workforce to become more reflective of the country as a whole

The OCC's minority population has increased from 30 to 36 percent. Manager positions held by minority and female populations increased from 21 to 28 percent and 37 to 39 percent respectively. Senior level manager positions held by minority and female employees increased from 20 to 25 percent and 27 to 30 percent respectively. The Executive Committee of the agency is now 50% female and 50% non-white

> Jerome H. Powell, Chair (June 2020): *The Federal Reserve serves the entire nation. We operate in, and are part of, many of the communities across the country where Americans are grappling with and expressing themselves on issues of racial equality. I speak for my colleagues throughout the Federal Reserve System when I say there is no place at the Federal Reserve for racism and there should be no place for it in our society. Everyone deserves the opportunity to participate fully in our society and in our economy. These principles guide us in all we do, from monetary policy, to our focus on diversity and inclusion in our workplace, and to our work to ensure fair access to credit across the country. We will take this opportunity to renew our steadfast commitment to these principles.*

Financial institutions committing to diversifying their management in community benefit agreements. We need the support of federal regulators to enforce CBAs. In the last 2 years of negotiations with banks, GLI has negotiated that several banks in the consolidation process:

- Have at least 25% of their leadership comprised of individuals from underrepresented groups (persons of color or women) or see an increase of at least 25% in underrepresented executives in leadership roles.
- Make management demographic data publicly available
- Bank Boards Lack of Racial and Gender Representation
- Make House Financial Services Data openly available

Boards of large banks still predominantly white, 80% white and 70% male
Improving recruitment and retention in banking and financial services with opportunities for upward mobility (access to senior management/leadership roles)

GLI tracked data for the board of directors of the ten largest banks in California in 2019 and found that on average, people of color made up 30 percent of bank board composition, even though over 67 percent of California's population are people of color. These figures have barely changed since we analyzed bank boards in 2012 and again in 2017, showing that banks have not made sufficient progress on recruiting people of color to their boards

For the upcoming 2022 report on Bank Board Diversity, for the board of directors of the 9 largest banks in California we found that on average, people of color made up 28% of bank board composition, even though 64.7 percent of California's population are people of color.

In addition, we found that 38% of the bank board members were women and 16% were women of color.

Data transparency and Accountability

In its 2020 report on bank diversity data, House Financial Services Committee staff noted that, "Diversity data is important to measuring the success of diversity and inclusion outcomes.

Despite organizations' best intentions, without data, they will be unable to evaluate and effectively implement their diversity and inclusion goals."

Also in the report, Chair Beatty emphasized that "banks and other financial services companies must be more transparent with diversity data so that regulators, Congress and the American people can hold them accountable for real and intentional diversity and inclusion outcomes."

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) created the Offices of Minority and Women Inclusion (OMWI) in part to begin to hold industry accountable for diversity and inclusion. Despite this explicit authority, the prudential regulators, including the Fed, FDIC, and OCC, issued guidance (known as the Joint Standards) that permits banks and other institutions to comply with the OMWIs' requests for diversity and inclusion data voluntarily.

Regulators should update their guidance from voluntary compliance to mandatory compliance .

The Racial Wealth Gap cannot be addressed if we cannot implement race conscious policies in the banking and financial services industry and we cannot fully address diversity in financial services if we are not prepared to address the future of the industry.

Bank consolidation has resulted in nearly two thirds of banking institutions have disappeared since the early 1980s with a substantial portion of the loss due to mergers and shifts in the industry toward online financial services and resulting in an ongoing downward trend in the number of customer facing branch locations

FinTech - non-bank mortgage lenders that operate substantially online utilizing technology and that do not offer traditional banking services are increasingly dominating the home purchase lending space but remain largely unregulated; Nonbank lenders are more likely to make home loans to low-income borrowers than traditional banks—with both conventional and government-subsidized loans.

We need to ensure all financial services are monitored and regulated to avoid any particular sector becoming a bastion of consumer exploitation.

As traditional institutions also turn to an increasingly online presence for their services, we must encourage regulators to assess these institutions on their activities in any area where they do a substantial amount of business regardless of whether a physical branch is present in the given community. As we discussed in our comments on proposed rules to reform the CRA earlier this year, Greenlining supports the financial regulators proposal to expand assessment areas beyond branch locations.

Climate Change, Climate Finance, and the Impact on Financial Markets

Communities of color and LMI communities are the most vulnerable to the direct effects of climate change. Investments to counteract these effects must prioritize these communities first and foremost if we are to tackle them head on. Financial services institutions when looking to make investments to address these challenges should utilize publicly available data tools like the Environmental Protection Agency's (EPA's) Environmental Justice Screening and Mapping Tool (EJScreen) and the White House Council on Environmental Quality's recently released Climate and Economic Justice Screening Tool (CEJST) to identify our most vulnerable communities. In doing so, the Committee should encourage regulators to assess institutions not just on their willingness to invest in climate-related projects but in how well it is being targeted to communities most in need at most at risk.

Financial services have played a role in disinvestments in communities of color through redlining. Due to this, they play a critical role in undoing years of discrimination.

- According to a Harvard review of the 12 Regional Banks, we conclude that the increased presence of minority directors on the twelve regional Federal Reserve Banks—the quasi-governmental entities responsible for evaluating many commercial banks' lending to underserved, and disproportionately majority-minority, communities—is associated with greater lending to these communities
- Redlining still persists and there needs to be more accountability and federal overnight on these discriminatory practices that impede economic growth and mobility for diverse communities
    - i) Appraisal Discrimination
    - ii) Home Mortgage Lending Discrimination
    - iii) Increased workplace diversity is associated with improved company performance, greater employee retention, and higher employee engagement.

CONCLUSION

We applaud the Committee on Financial Services for prioritizing diversity and inclusion with the creation of this subcommittee. As people of color move toward becoming America's new majority, we must be full participants in the U.S. economy and able to participate everywhere decisions are made that affect our lives.

Tthank you again for the opportunity to testify today and highlight our work. The Greenlining Institute looks forward to working with you to shed light on the diversity and inclusion practices of the nation's financial institution.