

**Testimony of Michael Pugh
Chief Executive Officer and President
Carver Federal Savings Bank**

**Before the
Consumer Protection and Financial Institutions Subcommittee
Committee on Financial Services
United States House of Representatives
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Chairman Meeks, Ranking Member Luetkemeyer, and members of the Subcommittee, good morning. Thank you for inviting me to discuss the important work of Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs) during the COVID-19 health and economic crisis.

My name is Michael Pugh. I am the CEO and President of Carver Federal Savings Bank, a CDFI and MDI based in New York, NY. I also serve on the Board and Chair the Membership Committee of the Community Development Bankers Association (CDBA). CDBA is the national trade association and the voice for banks that are certified as CDFIs.

First, I want to thank the members of this Subcommittee for their support of CDFIs and MDIs, particularly for providing \$1 billion of funding for CDFIs through the CDFI Fund in the HEROES Act, recent provisions in the CARES Act related to streamlining applications and reporting for CDFIs, and HR 6775 to amend the CARES Act to include set asides for CDFIs and MDIs in federal provisions of liquidity to support small businesses.

Statement Addressing the Recent Protests and Unrest

Second, I would be remiss if I did not acknowledge the ongoing events, both nationwide and in New York City. These events underscore the outcry of communities insisting on equality. I think we can all agree that some of the recent approaches may be controversial, yet the demand for equality in our great nation will inevitably support the betterment of our nation's future. Carver Federal Savings Bank is a federally chartered savings bank founded in 1948 to serve African American communities whose residents, businesses, and institutions did not have equality, because of limited access to mainstream financial services. Despite our 72 year history, we recognize that there is much more to do. Carver is one of the largest African American managed banks in the United States, with seven full-service branches in the New York City boroughs of Brooklyn, Manhattan, and Queens. Carver has continuously been headquartered in Harlem, and most of our seven branches and ATM Centers are in minority-majority and moderate- income neighborhoods.

The natural outcome of our work should be the economic empowerment and dignity of all people regardless of their racial background. That is why Carver's work is focused on financial services, community development to small business entrepreneurs, and banking services that enable our communities to achieve many of their financial goals.

Introduction to Carver Federal Savings Bank – An Essential Community Resource

Carver Federal Savings Bank is a federally chartered savings bank founded in 1948 to serve African-American communities whose residents, businesses, and institutions had limited access to mainstream financial services. Carver is one of the largest African American managed banks in the United States.

The U.S. Treasury Department designated Carver as a CDFI because of our community-focused banking services and dedication to the economic viability and revitalization of our community. To do this well, we have to cover a lot of ground - there are 2,057 census tracts within our assessment area, at the center of which is the most densely populated urban area in the United States. 45.70% of the total census tracts are identified as low- to moderate-income tracts. Further – our community has been growing. Over 7.9 million people reside in Carver’s assessment area, up 200,000 from Dec 31, 2015.

By numerous measures we are successful in pursuit of our mission. First off – we have a strong reinvestment ratio – approximately 80 cents of every dollar deposited at Carver are reinvested in our local markets. Another measure is our consistent "Outstanding" Community Reinvestment Act rating, highlighted by the regulators determination that our level of community development activities is “excellent,” particularly in relation to our performance context. Only 9% of lenders attain an “Outstanding” CRA rating, and we are proud to achieve it time-after-time. Fully 74% of Carver’s loans are made in LMI communities.

We fulfill our mission by providing access to reasonably priced loan capital and no-cost financial literacy training to aspiring Minority- and Women-owned Business Enterprises (MWBES) and consumers across the Greater New York City region. As a leader in providing loans to MWBEs, we were Ranked #1 for three consecutive years (2014-2016) for the New York State “Bridge to Success” Loan Program and we have provided free financial literacy training to more than 16,000 individuals, mostly low-income consumers and aspiring entrepreneurs.

Carver is a leader in the provision of asset-building and deposit and cash management tools to underserved consumers and small businesses. We collaborate with the New York City Office of Financial Empowerment by providing bank accounts to unbanked families. The bank participates in a Volunteer Income Tax Assistance program designed for low-income individuals to inform residents on various financial topics and provide tax preparation services to applicable individuals. Carver also partners with the New York City Housing Authority by participating in a program to encourage unbanked residents to pay their rent at Carver branches. Through our free financial education and empowerment programs and strategic partnerships, Carver assists the community to understand the basics of banking, credit, strengthening small businesses, and achieve and retain homeownership. Our Carver Cash program serves underbanked individuals with a suite of new products and services that fulfill the needs of our community. At any of our branches, consumers can cash checks, pay bills and send or receive money transfers, and purchase discounted money orders and prepaid debit cards.

Carver works in local schools to teach parents and children about financial literacy. One of our customers, Merrick Academy, a public charter school in Queens, came to us from a larger national bank because they were not receiving the personal service and community involvement they were looking for in a bank. Outside of traditional financing, our bankers have enjoyed attending school events to educate parents and students about financial health and teaching workshops on financial literacy. While we cannot hold these events in person currently, we were able to secure a PPP loan for the school to support the 79 faculty and staff and 550 students during this difficult period of distance-learning.

We also have a Community Development Corporation subsidiary, Carver Community Development Corporation, which is a leading allocatee and leveraged lender to the New Markets Tax Credit Program (NMTC). As a three-time NMTC allocatee representing a combined allocation of \$149 million, CCDC invests in key asset classes, including mixed-use, workforce and affordable housing, commercial retail, charter schools, supermarkets and community facilities.

Impact of the Health and Economic Crisis on Vulnerable Populations in New York City

As a bank intentionally serving a predominantly minority community, I am proud of my colleagues who have demonstrated exceptional leadership as financial “first responders” during the COVID-19 health and economic crisis. During this period, the challenges of minority-majority communities have been brought into starkest relief, especially in New York. As of May 31, New York City had over 200,000 confirmed cases of COVID-19, and 16,410 confirmed deaths. Distressingly, NYU’s Furman Center reports that high concentrations of COVID-19 infections have been strongly linked to having a large share of black and Hispanic residents.¹

Our communities are most likely to occupy densely populated urban neighborhoods, which are served and staffed by under-resourced public hospitals, and are represented in the commercial space by small, family owned businesses, often with few or no employees and relying largely on cash flows, absent capital cushions.

The economic effects of the COVID-19 pandemic, exacerbated by government efforts to contain its spread, have hit our communities especially hard, both on a national level and particularly in New York City. The New York Times has reported that COVID-related deaths of Black and Latino people in New York represent between a 17-27% higher percentage of deaths than these groups represent in the overall population.² This is at least partially attributable to the over-representation of people of color in front-line positions in essential industries who have been unable to shelter from exposure: 75% of front-line workers in the city — grocery clerks, bus and train operators, janitors and child care staff — are minorities. More than 60% of people who work as cleaners are Latino, and more than 40% of transit employees are black.³ Of all nursing

¹ <https://furmancenter.org/thestoop/entry/covid-19-cases-in-new-york-city-a-neighborhood-level-analysis>

² New York Times, May 7th; Virus Is Twice as Deadly for Black and Latino People Than Whites in N.Y.C.,

³ Ibid

assistants—a high-contact, essential job with elevated risks of virus contraction—33% are black.⁴

While we, as a lender, serve those members of our community whom we can reach, it is also no secret that our communities have been historically excised from mainstream finance on both a personal and commercial level, leaving us economically vulnerable to crisis. Minority communities continue to struggle to overcome thresholds to access capital. A 2018 Brookings Institution Small Business Credit Survey found that black small business owners are approved for business loans at a rate just half that of white small-business owners.⁵ This lack of access to capital has knock-on effects in the form of low levels of business ownership, low levels of comparative wealth, and high risk of unemployment, exacerbated economic uncertainty, and fragile health. For example, people of color represent about 40% of the population, but only 20% of the nation's 5.6 million business owners with employees.⁶ Further, prior to this pandemic, the typical Black and Latinx households had a net worth of just \$17,100 and \$20,765, compared with the \$171,000 held by the typical white household.⁷ This lack of wealth means our communities will suffer especially from the effects of the economic shut down as our neighbors lose their jobs and remain out of work: while minorities composed 37% of the labor force in February 2020, they accounted for 58% of the newly unemployed on March 14, 2020.⁸

Role of Carver as a CDFI in Responding to the Crisis

The role of a CDFI bank is to bridge the gap for financially vulnerable customers that traditional banks too often ignore. Like all CDFIs, at least 60% of our lending and activities target low- and moderate-income communities. Our lending activity for fiscal year 2020 has exemplified the success of our mission-focused lending. Fully 42% of Carver's fiscal year 2020 loans were originated in census tracts with a poverty rate of 20% or higher, and 72% were in census tracts with an unemployment rate over 12.45% -- 1.5 times the national average. Crucially, 81% of our loans in high-poverty areas, and 43% of those in high-unemployment areas, were responsible small-dollar loans made to consumers or to local businesses. The remainder supported economically essential projects such as commercial real estate, multifamily housing, and mixed-used development.

As the COVID-19 crisis has intensified, Carver Bank has responded to the needs of our communities in New York who suffer from a combination of high exposure and exceptional vulnerability by working with SBA and other government partners to implement critical programs, such as the Paycheck Protection Program, (PPP). PPP has the potential to save jobs, ensure the flow of funds to workers, and ensure the recovery and viability of the businesses that are so essential.

Through the PPP, we have made over \$30 million in loans to 147 businesses in the greater NYC Region, particularly Brooklyn, Harlem, and Queens. These loans have preserved 3,147 jobs.

⁴ Mckinsey & Co., May 27, COVID-19's effect on minority-owned small businesses in the United States

⁵ Mckinsey & Co., May 27, COVID-19's effect on minority-owned small businesses in the United States

⁶ Brookings Institute, April 14, Businesses owned by women and minorities have grown. Will COVID-19 undo that?

⁷ Center for American Progress, April 14, The Economic Fallout of the Coronavirus for People of Color

⁸ Mckinsey & Co., May 27, COVID-19's effect on minority-owned small businesses in the United States

Many of these emergency loans were made to small businesses that came to Carver after borrowers were shut out of the PPP lending pool at larger financial institutions in New York. Many came to Carver during Round 2 of the program in the hopes of securing funds to weather this economic storm and to find the personal level of banking and community knowledge that other institutions did not have. For example, Mukaram Taheraly owns Mushtari Hardware and Garden Supply in Harlem, which is part of the 125th Business Improvement District. Not only did Mukaram come to Carver after being left out of the first PPP round at a larger bank, his business offered gloves and mask to the bank to protect its front-line workers in our branches.

Through the PPP, Carver was also able to assist a venerable local nonprofit, the Greater Harlem Chamber of Commerce (GHCC). GHCC had also applied unsuccessfully in Round 1 through another institution. Carver was able to assist GHCC both with a grant and with expertise that helped GHCC submit a successful PPP application. GHCC has worked tirelessly in concert with Carver, The City College of New York, Columbia University, the NAACP, and others to provide much needed community support through daily food distributions to needy families as well donations of gloves, gowns, and masks to first responders at Harlem Hospital.

Another PPP loan we financed preserved 11 jobs at Baba Cool Café in Brooklyn. Gabriella Mann, the owner, and a Carver customer since she opened the restaurant in 2014, has pivoted her kitchen to producing meals for front-line workers during the pandemic.

The last PPP loan I'll mention is to Elaine Dixon, the owner of D'Little Star Daycare in Jamaica, New York. Elaine's daycare center has eleven staff members who have provided vital childcare services to local parents since 2010. Her PPP loan has allowed her to continue paying her staff and will make the transition to reopening much smoother. As we all know, childcare for the children of essential workers – especially for lower-income parents – is vital to reopening our economy safely. Elaine's, Gabriella's and Mukaram's efforts illustrate the importance of Carver Federal's on-the-ground presence in communities that are being hardest hit by the pandemic. Not only are we preserving jobs and providing access to capital to minority and women-owned small businesses, but we are also building relationships with members of our community who are more than a number or a line item in our core system. These customers are emblematic of the fighting spirit of New York City.

In my testimony, I wish to focus on the impact and importance of the CDFI Fund in promoting economic recovery in our markets, the need to modify the Paycheck Protection Program to help us save small businesses and jobs, and how to ensure that the bank regulatory agencies can help – not hinder – our ability to navigate.

My recommendations to Congress are:

- Provide at least \$1 billion in emergency stimulus to the CDFI Fund that CDFIs can use to channel into the low- and moderate-income communities that are bearing the brunt of the economic crisis.
- Amend the Paycheck Protection Program to make it flexible enough to meet the needs of small businesses and nonprofits that without assistance may not survive this economic crisis.

- Ensure greater regulatory flexibility during this crisis and recovery period. Specifically, Congress needs to direct the bank regulatory agencies to implement a rule releasing additional capital into LMI communities by extending the temporary provision for community banks to be considered adequately capitalized at a lower Tier One Capital Leverage Ratio. Currently, a two-quarter grace period exists for community banks with a leverage ratio that has fallen below 8% (but above 7%). This provision should be extended for a period no less than five years.

Importance of the CDFI Fund

The CDFI Fund has played a critical role in the growth of Carver Federal Savings Bank and our ability to serve our communities over the past decade.

CDFIs need capital to respond to the economic crisis. My strongest recommendation to Congress is to support at least \$1 billion in emergency stimulus money for the CDFI Fund. This capital will be put to work immediately to help small businesses, consumers, nonprofits, affordable housing developers, and other needs that will help rebuild the most deeply impacted communities. CDFIs are nimble problem solvers that know their markets, know their customers, and know how to get the job done.

CDFI Fund programs have enabled Carver Federal Savings Bank to reach vulnerable customers with products and services designed to meet their needs. The CDFI Fund's programs have also enabled us to fund major projects that would not otherwise be feasible -- but which have had a catalytic effect that creates shared prosperity.

Since 2010, Carver Federal Savings Bank has received six BEA awards totaling \$1.5 million and three New Market Tax Credit allocations totaling \$149 million.

One example of how we have leveraged our BEA award to support our community is our work with BronxWorks. BronxWorks is a social service agency whose mission is to assist individuals and families improve their economic and social well-being. BronxWorks was founded in 1972 as the Citizens Advice Bureau and serves over 50,000 Bronx residents a year. Approximately 95% of the individuals served are either African-American or Latino. The neighborhoods served by BronxWorks generally align with NY's 15th Congressional District, which continues to be one of the poorest urban congressional districts in the nation. Carver's BEA grant supported BronxWorks' Workforce Development Program. This funding allowed BronxWorks to provide approximately 121 unemployed or under-employed individuals with financial education and a direct path to employment, thus ensuring excellent tools for a pathway to self-sufficiency. Without the BEA grant Carver would not have been able to provide this support to BronxWorks.

An example of our success in leveraging New Markets Tax credits is our investment into Pitkin's Project/Ascend Charter School in the Brownsville section of Brooklyn. The investments consisted of \$13.1 million NMTC rehabilitation which transformed an abandoned, historic theater into an environmentally friendly space with 105,000-square foot for a charter school and 60,000 square feet for retail space for both small local tenants and larger regional/national

retailers The project create 120 permanent retail jobs and over 90 education-related jobs in the Brownsville section of Brooklyn.

Pivot the Paycheck Protection Program for Economic Recovery

As noted, Carver Federal Savings Bank has been an active participant in the Paycheck Protection Program (PPP) since it launched in April. To date, we have originated 147 loans totaling \$30 million. In Round 1, our average loan size was \$268,000. In Round 2, our average loan size is \$195,000 and 61% of our loans are under \$50,000. Additionally we made many loans in both Rounds 1 and 2 to tiny businesses and sole proprietors under \$10,000 -- 20% of our PPP loans have been \$10,000 or under. Our smallest loan to date was \$1,401.

Most of our PPP loans go to the smallest, most vulnerable businesses and the most distressed communities. Fully, 35% are in areas where the poverty rate exceeds 20%, and 23% are in communities with an unemployment rate greater than 12.45%. While we do not have data on the demographics of the business, as a general proxy, 67% of our borrowers are located in communities where minorities comprise 50% or more of the population.

Last week, the Administration announced the creation of a \$10 billion PPP set-aside for CDFIs. On one hand, this is an exciting new opportunity to help small businesses and nonprofits in our community. Thousands of small businesses and nonprofits in New York desperately need help. On the other hand, deployment will be an impossible task without legislative and regulatory changes to PPP. As currently structured, the PPP does not fit the needs of many organizations in our community.

PPP was originally envisioned as a tool to save jobs – a purpose I wholeheartedly support. As the depths of the economic crisis are becoming more evident, it is clear that to save jobs we need to save the businesses too. I urge Congress to pivot PPP from an emergency band-aid to a recovery tool.

To be a recovery tool, PPP needs to allow greater flexibility in the use of funds. Many businesses need to pay their rent, utilities and suppliers to keep their doors before they can hire back employees. Currently only 25% of PPP can be used for non-payroll expenses. We appreciate the increase to 40% in the recently passed House bill. In this circumstance, however, the more flexibility the better since every business and nonprofit is different.

I fully appreciate the great challenges faced by the SBA in rolling out the PPP as quickly as it did in the face of a crisis. Yet, the piecemeal roll out has created confusion about eligibility, program rules, and forgiveness. Some of the rules and guidelines were issued after borrowers received their loans. Now business owners are unsure whether they need to pay the money back or not – or whether their loans will be forgiven.

Small businesses and nonprofits are already under great stress. In fact, over the past several weeks, I have spoken to many panicked customers. They see livelihoods and their dreams vanishing as their businesses are on the brink failure. It is not their fault or their failure, but it is

their new reality. Moving forward, I urge that small businesses be permitted to also use funds for restart activities, such as buying inventory or making leasehold improvements to allow social distancing. Congress has provided resources. We need to simplify and make the rules more flexible if we are to help these enterprises survive this economic turbulence.

According to a recent survey conducted by National Federation of Independent Business, 75% of surveyed small business owners find the terms and conditions of the PPP loan difficult to understand.

Luckily, despite the chaotic roll-out and programmatic challenges, Congress can fix the problem. Small businesses and nonprofits have a wide range of needs. A one-size fits all approach will not work. Making the use of funds more flexible and clarifying the rules for forgiveness will go a long way to maximizing the effectiveness of PPP.

Second, CDFIs need time to deploy the resources. Congress needs to extend the application period and rehiring deadlines through December 31, 2020.

Third, the loan forgiveness application and rules need to be streamlined. This is particularly true for the smallest businesses. I propose that businesses with PPP loan of less than \$100,000 should have a forgiveness application not exceeding two pages.

To this end, I wish to submit for the record along with my formal statement, a letter from the Community Development Bankers Association, the trade association for the CDFI banks, and Inclusiv, the trade association for CDFI credit unions, that includes a set of recommendations to help make PPP work better in the communities we serve.

Congress should recognize that businesses in low- and moderate-income and minority communities are often the most fragile. The severity of the current crisis threatens the viability of most enterprises. Economic recovery will be slowest in these communities but Congress can help by making sure practitioners on the ground have the tools they need to help.

In conclusion, I thank Chairman Meeks, Ranking Member Luetkemeyer, and the members of the Committee for the opportunity to talk to you about the work of Carver Federal Savings Bank and the hardships faced by the communities we serve.