

**Opening Statement by  
Ines Polonius, Chief Executive Officer of Communities Unlimited, Inc.**

**To  
U.S. House Select Committee on Economic Disparity and Fairness in Growth  
For  
Roundtable Discussion on America's Unbanked and Underbanked**

**December 9, 2021**

Good Morning, Chairman Himes, Ranking Member Steil, members of the Committee, and fellow panelists, I am honored to speak to you this morning on behalf of Communities Unlimited (CU), a certified Community Development Financial Institution (CDFI) since 2002 and an SBA Microlender since 2009. We are a Rural Development Hub with 70 full-time staff serving Texas, Oklahoma, Arkansas, Louisiana, Mississippi, Tennessee and Alabama, a foot print that comprises 45% of America's Persistent Poverty Counties. 47% of people living in persistently poor rural counties are people of color.<sup>1</sup>

Communities Unlimited was founded in 1974 to eliminate economic disparities in the rural South. While we have made great strides in ensuring that families have access to safe drinking water, economic disparities have only increased due to factors outside of our control. We are deeply grateful for the work of this committee to explore and address these disparities.

We believe that talent is distributed equally across our country. Opportunity is not. Our seven state footprint in the South is fortunate to be replete with a strong entrepreneurial spirit among people of color and whites alike. Rural entrepreneurs and entrepreneurs of color face barriers to success directly tied to being unbanked.

### **Impact of Economic Disparities**

Economic disparities are preventing our economic growth from reaching its full potential, especially in communities of color and rural places. A report published in October 2020, by McKinsey and Company projects that the racial wealth gap will cost the US economy up to \$1.5 trillion per year by 2028. McKinsey further concludes that supportive ecosystems for Black-owned businesses by addressing the "challenges of access—to capital, expertise, and services" will help close the racial wealth gap. In December 2020, the SBA reported that small firms accounted for about 63% of new private sector jobs from 2010 to 2019.<sup>2</sup> In persistently poor rural communities, this percentage is closer to 100% of new jobs created by small businesses. Our economy depends on the success of these rural businesses, but they face many barriers.

Persistent poverty counties are defined by the federal government as those where more than 20% of the population has lived in poverty for over 30 years. Pervasive poverty over three decades erodes key institutions and infrastructure, most notably banking institutions. Most of the

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<sup>1</sup> E. Dobis, T Krummel et al., USDA Economic Research Service. [Rural America at a Glance: 2021 Edition \(usda.gov\)](https://www.ers.usda.gov/pubs/err121). November 2021, p. 18.

<sup>2</sup> SBA, Office of Advocacy, [Economic Bulletin, December 2020 \(sba.gov\)](https://www.sba.gov/economic-bulletin)

communities where we work have not seen a bank branch in over a decade. With 31.8% of rural households in persistently poor areas having no Internet access at home, financial technology solutions remain largely inaccessible.<sup>3</sup>

**Addressing Banking Deserts**

Banking deserts are at the heart of economic disparities. Banking deserts are twice as likely to exist in rural communities than urban centers. They more significantly impact minorities and low-income households.<sup>4</sup> Banking deserts create a significant burden on households as cost of alternative financial services are significantly higher. When a banking desert emerges, predatory financial services fill the vacuum with disproportionately higher cost of access. Small businesses in banking deserts are disproportionately minority-owned and more likely to use credit cards to finance their business.<sup>5</sup>

The table below illustrates one of the many rural banking deserts in each state of CU’s footprint that experienced a continued loss of bank branches over the past three years.

Rural Examples of Bank Branch Closures 2017 to 2020								
County	State	Total Population	People of Color	White	Banks open in 2017	Banks open in 2020	Branch Change	Change Percentage
Bullock County	AL	10357	76%	24%	2	1	-1	-50%
Johnson County	AR	25749	22%	78%	11	8	-3	-27%
Cameron Parish	LA	5617	5%	95%	4	2	-2	-50%
Jefferson County	MS	7260	86%	14%	2	1	-1	-50%
Tillman County	OK	6968	37%	63%	5	3	-2	-40%
Chester County	TN	17341	11%	89%	8	6	-2	-25%
Cottle County	TX	1380	29%	71%	2	1	-1	-50%

P2 Table - Census.org  
 Bank Branch Change by County - <https://public.tableau.com/shared/JRN7YYK62?:showVizHome=no>

In three of the counties in this sample, individuals and small businesses only had two bank branches across the entire county in 2017 and one of them closed. There are 113 employer establishments and many owner-operator businesses across Bullock County, Alabama. These businesses now have one bank branch remaining in the entire county at which to make deposits or secure a business loan. This hit local retailers particularly hard as rural retailers work primarily with cash and have to drive long distances to deposit cash. If they cannot deposit their cash, they lack funds to pay their vendors and employees. Having large amounts of cash onsite also makes

<sup>3</sup> Dobis and Krummel, p. 15.  
<sup>4</sup> Kashian, R.D., Contreras, F. and Perez-Valdez, C., 2016. The Changing Face of Communities Served by Minority Depository Institutions: 2001-2015  
<sup>5</sup> Brookings, 2021, “An analysis of financial institutions in Black-majority communities: Black borrowers and depositors face considerable challenges in accessing banking services.”

them lucrative targets for break ins. It is challenging for entrepreneurs to develop a personal relationship with a banker when there is one branch left in the entire county.

The roll out of the Paycheck Protection Program (PPP) as part of the Cares Act legislation in 2020 was the most recent example of the impact of banking deserts. In round one of the PPP roll out, thirty of our clients approached approved banks for PPP loans. Only 2 were funded, the other 28 heard nothing back, ever, despite many follow up phone calls. Our experience demonstrated that small businesses needed to have a personal relationship with a banker in order to access Payroll Protection Program funds. As with the one bank branch remaining in Bullock County, AL, developing a personal relationship with a banker is an almost impossible barrier to overcome in many rural communities.

Some of our clients then went online to access PPP loans. Predatory lenders were offering so called “PPP loans” in name only but at much higher interest rates and with no opportunity to have a portion of it forgiven. At the end of the PPP program, we leaed that fintech companies did not fill the gap that banks left, CDFIs did. Our partner, Hope Institute, studied PPP loans in Mississippi. Even though there were 19 fintech lenders in Mississippi approved to make PPP loans as of May 2020, only five made any loans at all in the state in 2020.<sup>6</sup> For PPP loans under \$150,000 made in Mississippi, CDFIs collectively outperformed all PPP loans made by fintech lenders in terms of number of loans, loan volume, and jobs saved.<sup>7</sup>

Lender Type	Total Loan Volume	Total Jobs	Total Loans
Fintechs Total	\$40,206,463	4,828	2,100
CDFI PPP Loans under <\$150K	\$609,710,383	108,607	22,817

As an SBA Microlender, Communities Unlimited was not allowed to make PPP loans until January 2021. In a matter of 12 weeks, we made 290 PPP loans for a total of \$4.1 million.

- 67% of the PPP loans went to entrepreneurs of color, including 12 loans to Black small scale farmers
- 61% went to small businesses in rural communities.
- 92% of PPP loans have so far been forgiven

As a CDFI and microlender, we demonstrated how in a very short period of time we can leverage our deep roots in persistently poor communities through our staff and our grassroots partners to reach unbanked entrepreneurs.

<sup>6</sup> Pearl Wicks and Diane Standaert, Hope Policy Institute, Community Development | CDFIs’ Mission-Driven Orientation Is Critical to Making Financial Technology Work for Deep South Communities (frbsf.org), August 19, 2021.

<sup>7</sup>Analysis of SBA Paycheck Protection Program Loan Level Data for PPP loans originated in 2020, accessed June 7, 2021, <https://www.pandemicoversight.gov/>

## Services Provided by Communities Unlimited to Unbanked and Underbanked Communities

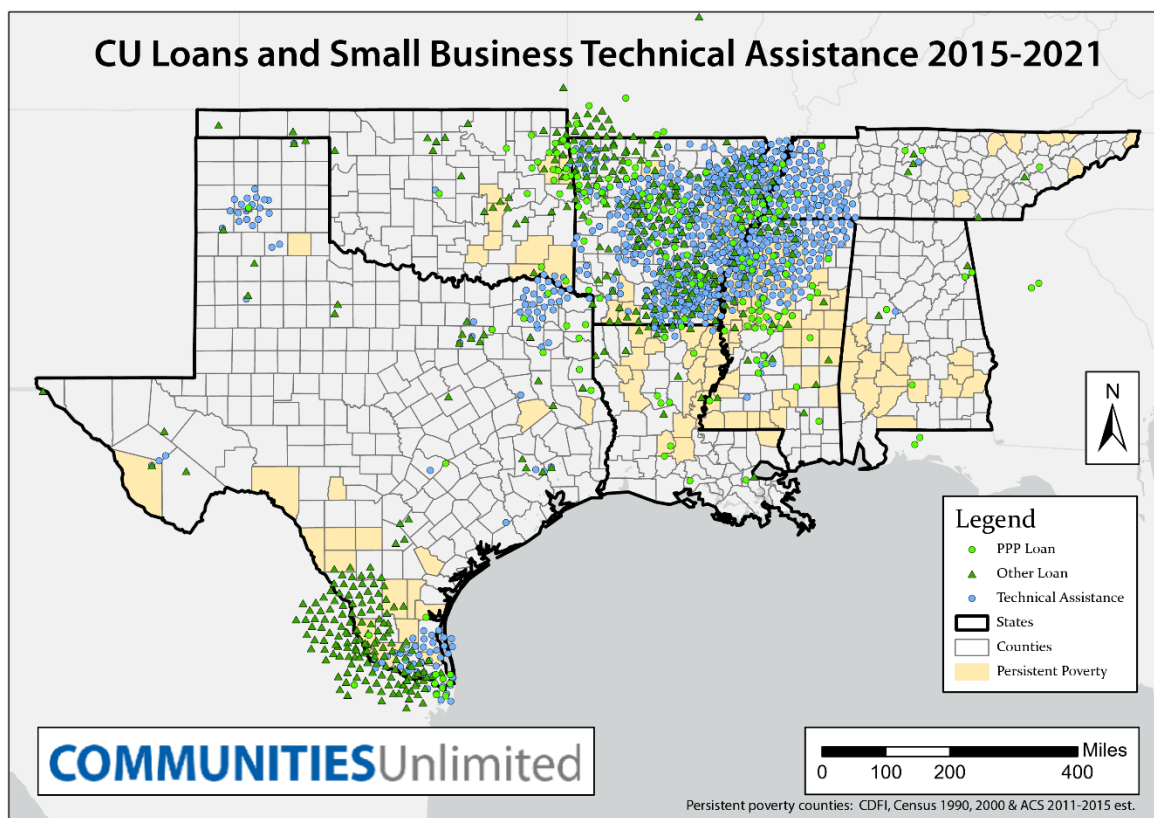
Communities Unlimited is a member of partner of national networks working to address disparities including the [Partners for Rural Transformation](#), the [Opportunity Finance Network](#) and the [Rural Community Assistance Partnership](#). CU provides the following services to unbanked entrepreneurs:

1. Intensive Technical Assistance—to make small businesses capital ready. In FY21, CU assisted 235 small businesses in navigating COVID19 through one-on-one technical assistance which included among other services:
  - Financial literacy training
  - Loan readiness training
  - Implementation of financial management systems
  - Recommendations to ensure profitability and sound cashflow.
2. Start-up and Working Capital— Loans from \$1000 to \$100,000 based on new lending approach we developed in 2009 that mitigates risk through technical assistance and right-sizing a loan instead of relying on collateral and credit scores. This is relationship driven lending that reaches the unbanked. In FY2021, CU's small business loans (not including PPP):
  - Averaged \$29,000 in size
  - To borrowers with an average credit score of 620
  - 63% of whom are rural entrepreneurs
  - 58% of whom are entrepreneurs of color.

Since 2009, this lending model has allowed CU to provide \$2.2 million in microloans to unbanked and underbanked entrepreneurs with loan losses of around 1%.

3. Relationships with Banks— to create a bridge of trust for unbanked individuals and entrepreneurs to banking institutions, enable banks to refer declines, engage in loan participations on deals greater than \$100,000 and bring bankable businesses back the partner banks.

The map below indicates where Communities Unlimited has provided intensive technical assistance as well as start-up and working capital loans over the past seven years.



### Partnerships with State, Local and Federal Governments

1. Local Government: CU has built over 30 rural leadership teams that work closely with their mayors to build entrepreneurial ecosystems that support existing small businesses and the start-up of new businesses.
2. Federal Government—CU’s work with unbanked, rural entrepreneurs is supported in part through:
  - CDFI Fund at the Department of Treasury
  - Rural Business Development Grant at US Department of Agriculture
  - PRIME grant at the Small Business Administration.

CU’s capital for relending is made available through the CDFI Fund and the SBA Microloan Program. Without these essential federal programs, we would not be able to support rural entrepreneurs nor entrepreneurs of color.

## **Recommendation:**

### **Provide flexible, institution-level equity capital to CDFIs using the Treasury Department's CDFI Fund programs as a model**

Reaching the unbanked requires more than technology. It requires financial literacy and financial management training so potential borrowers understand the terms and impact of the loans they secure. CDFIs build relationships and trust with unbanked individuals to provide both capacity building and capital.

As a CDFI, we greatly appreciate the recent recognition by Congress of the important role CDFIs play in ensuring access to affordable, responsible financial products and services. To address economic disparities, and truly achieve a more equitable and just financial system, the federal government must continue to increase the supply of capital to CDFIs that can channel those resources into distressed communities.

An annual appropriation of \$1 billion for the CDFI Fund is critical to strengthening CDFIs to continue assisting in the long-term economic recovery of rural and low-wealth communities. But these federal investments need not be limited to the CDFI Fund's programs – there are opportunities to invest in CDFIs across agencies but federal programs are not always structured in ways that enable capital to flow where it is needed most.

The CDFI Fund's programs provide an effective model to deploy capital to lenders with deep roots in their communities because of their flexibility. CDFI Fund grants, unlike many other federal programs, are provided at the institution level instead of the project level, allowing lenders to deploy the capital based on the needs of the communities they serve.

Using a similar model for other federal funding programs will broaden the reach and impact of the federal government's investments and help expand access to credit and safe, affordable lending in underserved rural communities.

On behalf of Communities Unlimited, the 950 certified CDFIs, and the thousands of rural communities and entrepreneurs of color we all serve across our country, I want to thank you for allowing me to share our perspective and look forward to the discussion of this roundtable.