

Preservation and Promotion of Minority Depository Institutions

The Federal Deposit Insurance Corporation Report to Congress for 2019



Betty J. Rudolph, National Director, Minority and Community Development Banking, FDIC, welcomes attendees to the 2019 Interagency MDI and CDFI Bank Conference.

The National Director also regularly meets with Federal banking agency colleagues to discuss outreach and training efforts, to share ideas, and to identify opportunities where the agencies can work together to support MDIs. In addition, the FDIC coordinates with other Federal agencies that provide programs that can assist MDIs.

Executives and staff in the FDIC's six regional offices communicate with each MDI regularly to outline the FDIC's efforts to promote and preserve minority ownership and management of financial institutions; offer to have a member of regional management meet with the institution's board of directors to discuss issues of interest; hold roundtable discussions and training sessions; and seek input regarding any training or other technical assistance the institution may desire.

The FDIC has a website (fdic.gov/mdi) dedicated to MDIs, which provides valuable information on MDIs and resources useful to minority banks. The MDI website houses the FDIC's [Annual Reports to Congress](#), a list of MDIs updated quarterly, research studies on MDIs, and other helpful resources. These resources include information on how collaborations with MDIs can result in

sound and profitable lending and investments that meet the needs of underserved communities, updates on the FDIC's MDI Subcommittee, and contact information for national and regional MDI coordinators and staff.

2019 Initiatives Supporting Minority Depository Institutions

The preservation and promotion of MDIs remains a long-standing and high priority for the FDIC. In 2019, the FDIC expanded engagement with MDIs and continued to promote and support strategies led by MDIs and Community Development Financial Institution (CDFI) banks to better serve their communities. These strategies included increasing collaboration between MDIs and other financial institutions; partnering to share costs, raise capital, or pool loans; and innovatively using available Federal programs. The FDIC supports these efforts through research, outreach, and engagement to better understand MDI issues, as well as by providing technical assistance, education, and training for MDI and CDFI banks.

Research

During 2019, the FDIC published a research study, [Minority Depository Institutions: Structure, Performance, and Social Impact](#), that explores changes in FDIC-insured MDIs, their role in the financial services industry, and their impact on the communities they serve. The study looked at the demographics, structural change, geography, financial performance, and social impact of MDIs over a 17-year period ending December 31, 2018.

The study found that MDIs continue to consolidate, but more gradually than community banks overall. The number of African American MDIs declined by more than half during this period. African

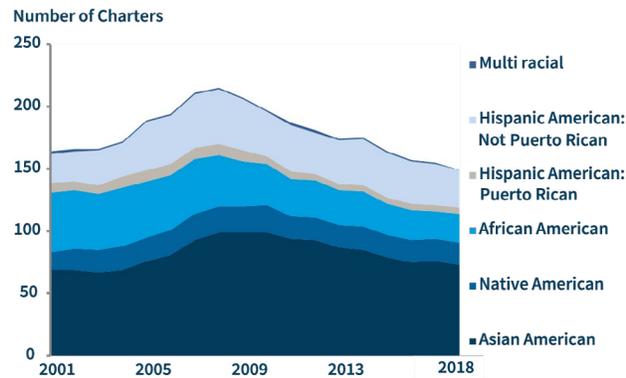
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American MDIs represented 15 percent of all MDIs at year-end 2018, compared with almost 30 percent of all MDIs in 2001. However, the number of Native American, Hispanic American, and Asian American MDIs increased during the same period.

FDIC-Insured MDI Charters

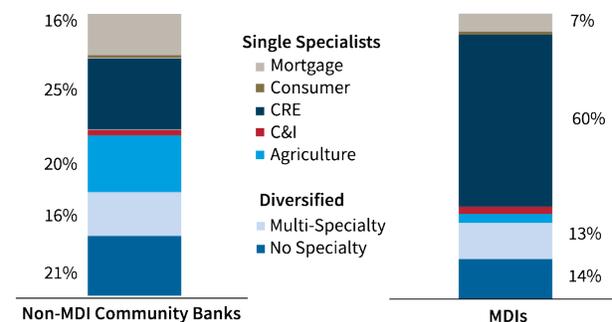


By 2016, MDI assets had surpassed pre-recession highs, and they continue to grow in absolute terms. The asset share of Asian American MDIs has increased, while the asset share of African American MDIs and Hispanic American MDIs has declined.

MDI financial performance improved significantly over the past five years, particularly in terms of revenue generation and loan performance. Credit quality and earnings at MDIs were especially hard hit during the last recession and housing crisis. However, credit quality has continued to improve in the past five years, and MDI noncurrent loans and net charge-offs were at new lows at the end of the study period. MDIs, and particularly small MDIs, still have much higher expenses in terms of the cost to bring in a dollar of revenue. However, that disadvantage has narrowed in recent years.

MDIs not only have a greater share of total loans secured by real estate, but they also have more loans secured by CRE than non-MDI community or non-community banks. Since 2001, MDIs have migrated to the CRE specialty group from other lending groups. In 2001, 32 percent of MDIs had no lending specialty; by 2018, this number had declined to 14 percent. The share of MDI CRE specialists reached 60 percent at year-end 2018, compared to 25 percent at community banks.

Percent of Institutions by Lending Specialty Group, Year-End 2018



MDIs tend to serve communities in which a higher share of the population lives in LMI census tracts and a higher share of residents are minorities, compared with non-MDI community banks in similar geographies.

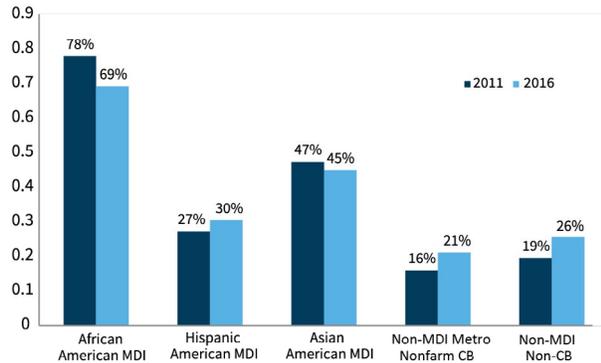
The chart on the next page shows the high percentage of LMI populations served by MDIs, compared to similarly situated non-MDIs (non-MDI non-farm community banks) and non-MDI non-community banks, which are generally very large institutions with a regional or national footprint.

Preservation and Promotion of Minority Depository Institutions

The Federal Deposit Insurance Corporation Report to Congress for 2019



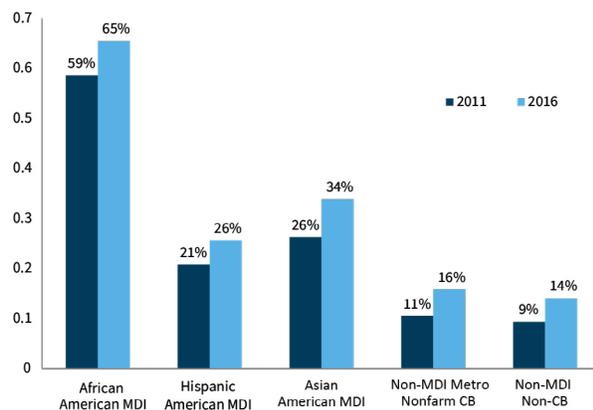
The median share of estimated service area population living in LMI census tracts is higher among MDIs



Source: FDIC. Note that CB means community bank.

In addition, a comparison of mortgage lending based on an analysis of Home Mortgage Disclosure Act (HMDA) data showed that MDIs originated a greater share of their mortgages for properties in LMI census tracts and to minority borrowers when compared with non-MDIs in similar geographies. Compared with non-MDIs, MDIs also originated a greater share of small business loans guaranteed by the U.S. Small Business Administration (SBA) to borrowers in LMI census tracts and to borrowers in census tracts with higher shares of minority residents.

The median share of HMDA-reported mortgage originations for properties in LMI census tracts is higher for MDIs



Source: FDIC. Note that CB means community bank.

MDI Subcommittee

In 2019, the FDIC established a new MDI Subcommittee of the Advisory Committee on Community Banking (CBAC), which held its inaugural meeting in December 2019. There are nine executives serving as members of the MDI Subcommittee representing African American, Native American, Hispanic American, and Asian American MDIs across the country.

The MDI Subcommittee advises the CBAC regarding the FDIC's MDI program. It serves as a source of feedback for the FDIC to fulfill its statutory goals to preserve and promote MDIs. The MDI Subcommittee provides a platform for MDIs to promote collaboration, partnerships, and best practices, and it identifies ways to highlight the work of MDIs in their communities.



FDIC held its inaugural meeting of the MDI Subcommittee on December 3, 2019.

Preservation and Promotion of Minority Depository Institutions

The Federal Deposit Insurance Corporation Report to Congress for 2019



MDI Subcommittee members discuss banking trends affecting MDIs. From left: James H. Sills, III, M&F Bank; Warren Huang, Amerasia Bank; Gilbert Narvaez, Jr., Falcon International Bank; and Kyle Chavis, Lumbee Guaranty Bank.

During the December meeting, the FDIC presented MDI Subcommittee members with potential updates to the FDIC’s [Policy Statement Regarding Minority Depository Institutions](#) (see Attachment 1), with the objective of strengthening its program to preserve and promote MDIs.

Members of the MDI Subcommittee provided a brief overview on the origins of their institutions, an overview of their business models, and the communities they serve. Some also commented on the unique challenges they face.

In addition, in 2019, the FDIC added additional MDI bankers to the CBAC membership to bring further MDI perspectives and issues to the table.

Collaboration Roundtables

The FDIC hosted three roundtables in 2019 with large bank executives and MDI bankers to foster collaboration to support the continued vibrancy of MDIs and their communities. At each roundtable, the FDIC outlined how both MDIs and other institutions might realize business and regulatory benefits by developing partnerships, drawing upon

the FDIC’s [Resource Guide for Collaboration with Minority Depository Institutions](#) (see Attachment 3), published in December 2017. In addition, the FDIC clarified how relationships with MDIs receive consideration under the Community Reinvestment Act (CRA).

During the roundtables, executives from 29 large banks and 24 MDIs discussed potential partnerships including financial support, lending activities, or service activities including technical assistance.

Prior to each roundtable, the FDIC asked bankers to complete a “collaboration inventory” (see Attachment 4). Minority banks outlined the types of partnerships they were seeking, such as direct investment or deposits; loan participations as a buyer or a seller; or technical assistance or services ranging from sharing specialty expertise to collaborating on product development or back office operations. Large banks identified the categories where they had an interest in partnering. Participants exchanged inventories prior to the roundtable to facilitate conversations at the meeting.



From left: Adam Ahmad, Barclays Bank, and Kevin Choi and Seung Goo (Sean) Lee, Shinhan Bank America discuss collaboration opportunities at the New York Large Bank – MDI Roundtable.

Preservation and Promotion of Minority Depository Institutions

The Federal Deposit Insurance Corporation Report to Congress for 2019



On June 27, the FDIC held a roundtable for banks in the FDIC's New York Region. Other roundtables were held in Atlanta on October 17 and Chicago on November 7.

Bankers attending the roundtables reported the beginning of promising partnerships that are in progress involving direct investment, deposits, and technical assistance. In addition, one of the banks described the benefit of networking with other MDIs at these events. The FDIC is monitoring the outcomes of the roundtables and will highlight successful partnerships at future events and on its MDI website.

Workshops and Webinars

One of the FDIC's statutory goals is to preserve the minority character of MDIs in failed bank acquisitions. In 2019, the FDIC hosted three workshops and three webinars with MDI bankers to discuss the failed bank bidding process and special marketing procedures for MDIs. In addition, the FDIC implemented a new marketing procedure that provides a two-week window exclusively for MDIs.²

Interagency MDI and CDFI Bank Conference

In June, the FDIC hosted the interagency MDI and CDFI bank conference, *Focus on the Future: Prospering in a Changing Industry*, in collaboration with the OCC and Federal Reserve. There were more than 200 attendees, of which 80 were MDI and CDFI bankers, representing 61 banks, at the two-day conference held at the FDIC's L. William Seidman Center in Arlington, Virginia.



Makada Henry-Nickie, Brookings Institute, (left) facilitated the discussion of key challenges facing minority and CDFI banks with FDIC Chairman Jelena McWilliams, OCC Senior Deputy Comptroller Grovetta Gardineer, and Federal Reserve Governor Michelle Bowman.

Agency principals from the FDIC, OCC, and the Federal Reserve opened the conference by providing updates on programs and policies that can help MDI and CDFI banks achieve their goals. Chairman McWilliams began the conversation by emphasizing the importance of minority banks to the financial system. "MDIs are critical to our nation's banking system. The idea behind this conference is to highlight your issues and honor the work that you do. I am very grateful to you." After remarks from each principal, the audience actively engaged with the principals through a variety of questions and comments.



Nilesh Patel, Central Bank, asks a question during the Agency Principals' panel.

² See discussion under Failing Institutions, page 12.

Preservation and Promotion of Minority Depository Institutions

The Federal Deposit Insurance Corporation Report to Congress for 2019



General sessions included a supervision panel where attendees heard from top regulatory officials about trending topics that are pertinent for MDIs. Other general sessions featured MDI CEOs offering their perspectives on top leadership issues; innovation; collaboration; and expanding MDI and CDFI bank participation in the New Markets Tax Credit program, which was a peer-to-peer dialogue.



CEO Perspectives Panel: From left, Arthur W. Lindo, Deputy Director of Policy, Federal Reserve, moderator; Cynthia Day, Citizens Trust Bank; Noor Menai, CTBC Bank Corp (USA); and Darrin Williams, Southern Bancorp, Inc.

Also featured was a general session on the FDIC's research study, *[MDI Structure, Performance, and Social Impact](#)*. The authors of the study discussed their findings, including trends in the structure, financial performance, and social impact of MDIs.



FDIC Research Study, *Minority Depository Institutions: Structure, Performance, and Social Impact*. From left: Erica Lee, moderator, Eric Breitenstein, Karyen Chu, and Margaret Hanrahan, Division of Insurance and Research, FDIC.

There was an extended session on Opportunity Zones, which explored the role that MDIs and CDFI banks can play in this tax incentive. Panelists included bankers who have participated in Opportunity Zone transactions, Opportunity Fund managers who are connecting investors and deals, and professionals with technical knowledge of the tax incentive.



Opportunity Zones Panel. From left: Aron Betru, Milken Institute, moderator; Mike Morrell, Sunrise Banks; Adam Northup, Virginia Community Capital; and Tony Thomas, Harbor Bankshares Capital Corporation.

Preservation and Promotion of Minority Depository Institutions

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The conference also featured a number of concurrent workshops that highlighted relevant topics for MDIs and CDFI banks. Topics included cybersecurity; a research discussion about understanding MDIs and their markets; Federal programs supporting MDIs; succession management; a peer discussion on the benefits of participating in the CDFI Fund’s programs; and a workshop that focused on the FDIC’s role in supporting preservation of the minority character of failing MDIs.

There were several networking opportunities for MDIs to learn from each other, share common interests, and interact with their regulators and other Federal agencies. These included networking lunches, an opening reception, and an opportunity to have candid conversations with regulators during a breakfast on the second day.

Attendees provided high ratings for the conference overall, and they specifically found the topics to be relevant to their work.



Succession Planning Workshop. From left: Asif Dakri, Wallis Bank; James Wang, Asian Bank; and Brian Argrett, City First Bank of DC.



Alden J. McDonald, Jr. (center) introduces his son, Todd McDonald, to FDIC Chairman McWilliams. Alden McDonald founded Liberty Bank and Trust in 1972 in New Orleans, Louisiana.



Preserving the Minority Character: FDIC Franchise Marketing Update. From left: Nathan Sis, Resolutions and Closing Manager, FDIC; and Pamela Farwig, Deputy Director, Division of Resolutions and Receiverships, FDIC.



Saurabh Narain, President and CEO, National Community Investment Fund and Alan Thian, President and CEO, Royal Business Bank at the opening reception.