FDIC PODCAST

Reflections from Chairman McWilliams

BRIAN SULLIVAN: Hey, welcome back to the FDIC podcast, where we talk about our banks, the banking system, and why it all matters to the very people who use banks. And even to those who don't, the unbanked. I'm Brian Sullivan with the Federal Deposit Insurance Corporation, and today we sit down for a final time with the FDICs departing Chairman Jelena McWilliams.

Chairman McWilliams was sworn in as the 21st chairman of the FDIC on June 5th, 2018. And in her time as chairman led this agency during an unprecedented. And in her time as chairman, led this agency during an unprecedented moment in our nation's history. Madam Chairman, welcome back.

CHAIRMAN MCWILLIAMS: Thank you so much, Brian. And it's a bittersweet, as I think about the podcast series we created, it was my brainchild. I said, let's elevate our social presence. Let's teach people about what the FDIC does and then you took it to a whole new level. So I'm so proud of you and thank you for having me.

BRIAN SULLIVAN: Well, you're generous! So let's, let's walk down memory lane and look at your years here. I have to imagine that every one of those 20 prior chairman of the FDIC encountered some challenge that was unique to their time. But is it safe to say that *your* time sitting in that chair was unlike any other?

CHAIRMAN MCWILLIAMS: It truly was unlike any other, and here's why. FDIC was born out of a crisis back in 1933 in the aftermath of the Great Depression. And I quite often say our brand is crisis. Why? Because we are there to resolve banks when banks start failing, even if it happens en masse, as it did in 2000 8, 9, 10. And so we have had prior chairman of the FDIC who had to deal with bank closures and bank failures, in hundreds of banks per year. Um, but we have never had a pandemic of these proportions on our hands. Actually, we've never dealt with a pandemic that shut down the entire economy of the United States. And when you think of that, my sitting at the helm of the FDIC throughout all of that and making sure that not only we do not have the repeat of the 2008 and bank failures and that the system can continue to function and that consumers have access to credit and capital. But on top of that to keep our employees safe, as we have to examine banks and even close banks, like that has been really unprecedented.

BRIAN SULLIVAN: Now, one of the most important missions of a place like the FDIC is to make sure that our banks are safe and sound and through everything we've been through in this pandemic, and continue to go through, is the banking system safe and sound?

CHAIRMAN MCWILLIAMS: The banking system is currently safe and sound. Then I have to say currently, because it can change. But I can tell you that banks have weathered the pandemic incredibly well. There are actually many banks higher levels of capital and liquidity than when I came to office in 2018. And to think about the shock to the economy that we all with stewed including the banking system in 2020. If you remember at the onset of the pandemic and the business closures, there was about a one-third drop in an annualized GDP rate in the second quarter of 2020.

And so when you think about that, such a shock to the economy has not been felt…well, I'm not going to misspeak, but I know they started keeping records, keeping the gross domestic product since 1948 or 46. And I don't think we have had that type of a crisis in a drop in GDP since then. So to think about what the banks had to do and how well they weathered the storm…and not only did they weather the storm, well, not only are they well capitalized with ample levels of liquidity, but we didn't have a single bank fail during the pandemic and the banking system served as the bedrock, it served as the very foundation of recovery throughout the economy.

BRIAN SULLIVAN: Can we talk about regulation and supervision? There's always been a debate over, how to regulate whether to regulate how much to regulate…the great recession of 2008 that you just pointed to, and the years that followed, saw a *lot* of regulation in the banking sector. Your time at the FDIC was also quite active. How would you like people to remember your approach to regulating and supervising our banks?

CHAIRMAN MCWILLIAMS: So I think there is a healthy balance that has to be achieved between where our regulatory system kind of a kicks in and where the health of the economy is considered. And the reason I say this is because you want to strike that balance and it's a very delicate balance. And I wish there were a magic formula that will tell you this is the right amount of, of regulation, right? But quite often, you don't even know where that right amount is. Why? Because there are sometimes collateral consequences that you don't even understand beforehand. So we engage in extensive rulemaking so when we promulgate regulations at FDIC with a view of let's solicit as many comments as we can from the public and the stakeholders to understand what the effect of regulations is going to be.

So when I look over the last three-and-a-half years, of my chairmanship at the FDIC, I would say that I hope people remember how quickly we jumped into making sure in 2020 into making sure that banks can remain open and help their customers. Immediately when the business closures happened in March of 2020, I started calling big bank CEO's our big bank, which is smaller than most of the banks regulated by the OCC. Uh, but I started calling them and I basically said, I said, are you working with your customers? We need consumers to stay in their homes. We can't have a repeat of 2008…what what's happening on the ground? And inevitably, they told us that they were trying to work with their customers already. They were calling their customers and they knew that modifying loans, mortgages in particular, for people who lost jobs because of the government shutdowns related to COVID pandemic, that they were working with those borrowers, but they were concerned. The banks were concerned that modifying such loans will be considered "impaired debt," the technical term is troubled debt restructuring TDR, under the gap accounting rules…

BRIAN SULLIVAN: … and that would adversely affected them…

CHAIRMAN MCWILLIAMS: It would adversely affect them because our examiners do look at TDRs and impaired debt on the bank's books to assess how safe and sound is this bank. You don't want to have too many so-called bad loans or troubled loans or impaired loans on the books. And so what, what I did at that point in time, I was thinking, well, how can we make sure we prevent this? We want people to stay in their homes and gosh, darn it, they're going to stay in their homes! We're not going to allow the foreclosures to happen from back in 2000 8, 9, 10, when people didn't even know where to send their loan modification documents. I worked as a staff attorney at the Federal Reserve at that time and I remember getting calls and getting letters from consumers who literally didn't know where to send documents to request loan modifications. And by the time they got to the right address, their home was being foreclosed on.

So, one of the things we did early on was make sure…we called over to, uh, FASB Financial Accounting Standards Board and ask them, Hey, listen, we're going to go public by saying that you need to do something to make sure that this loan modifications take place and are not classified as impaired to debt. And we worked with them and one of the early wins in the pandemic was to allow banks to modify loans in agreement with FASB and not have this modifications be considered TDR, troubled debt restructuring, if those loans were performing before the pandemic.

So when you think about regulation, you know, we issue rules, guidances… We issue a lot of, you know, legal documents that, you know, sometimes you need 300 pages to read and a lot of hours, but sometimes it's as simple as making phone calls and making sure that the right outcome for consumers happens and that's exactly what took place here. So I, I would say that you have to be as a regulator, you have to be agile and you have to be willing to admit that may be the regulation we did two years ago in the current setting, in the current circumstances should not be applicable or maybe it should be suspended for X period of time as we're experiencing a crisis. And that's what we did.

BRIAN SULLIVAN: Some have referred to you as the “innovation chairman.” You established a centralized office of innovation at the FDIC. You created a tech lab in that office called FDITECH. Why is innovation so important to you?

CHAIRMAN MCWILLIAMS: It's important to me on a personal level, frankly. I started out as an attorney, professionally as an attorney, in Silicon valley. And I remember working with early-stage companies in the early two thousands and trying to figure out how to fit their new business models into the existing Securities and Exchange Commission regulations and how difficult it was to work with the laws from 1933 and 1934 to accommodate these new business models that I saw firsthand we're improving people's lives and just does the mode of living. And so when I came to the FDIC, I also remembered my story of having come to the United States is as a young immigrant, I was 18-years-old. Um, had no family here, I came by myself, uh, with two suitcases and $500 that my parents had to borrow and not being able to get a credit card and how difficult at that point in time, it was for me to access any type of credit, including credit card debt. That I needed it so desperately as I, as I would work minimum wage jobs, and I would be left with 20 to $25 a month for food, which even back in 91 did not buy your 92. It didn't buy a lot of food.

And so when I thought about that, I was thinking, well, look at what some of these Fintechs and some of the banks are able to do. They're able to use algorithms, machine learning, artificial intelligence, to predict how people like me 30 years ago would pay their bills. And me now, and me 30 years ago, I had one thing in common and it was that we paid my bills on time…in both versions of me, paid my bills on time. And so had those technologies been available back then, somebody like me…a new immigrant to this country who was cleaning houses for $5 an hour and selling Cutco knives door-to-door and working, the closing shift at Blockbuster at $4.25 and still couldn't make ends meet…would have had access to credit.

And so when you think about that, it's not just about innovation because it's in vogue and people talk about it's the greatest and latest development…it really matters for people who need to be banked, who don't have other channels of access in credit or capital. And how far technology can go to predict the ability of such people to repay.

BRIAN SULLIVAN: You've talked about it democratizing the banking system…

CHAIRMAN MCWILLIAMS: Yes, democratizing finance and it's absolutely democratizing finance. Uh, you know, I have seen some of these technology companies being able to offer 720 and an above credit score, quality of credit to people in the 600 bracket. And in some cases even dipping below 600, the people in the 520 and above bracket, they were not basically 7 8, 10 years ago, they weren't able to get, uh, almost any kind of credit they had to rely on, on pawn shops and payday lending, et cetera, et cetera, because they couldn't get bank credit. And now we have an ability for banks to partner with these Fintechs who have the most innovative algorithms and models that look into the person's ability to pay based on their utility bills, payments of the utilities, cell phone payments, et cetera…

BRIAN SULLIVAN: …rent payments…

CHAIRMAN MCWILLIAMS: Rent payments, correct! Something that's actually not the type of credit that wouldn't be reported to the credit bureaus. And they're able to take a look at that and absorb all that information, analyze it, then say, "Hey, listen, this person may be poor. This person may be very new in the United States. This person may be new to our economy because they only have the job for six months, but they pay their bills and they paid all this on time. They paid five days early and to offer them credit."

BRIAN SULLIVAN: Right. Well, given how most people bank these days, which is to say on their mobile devices and computers, are you confident that as soon as you leave the FDIC, the banking sector is keeping pace with all this change or lagging behind it?

CHAIRMAN MCWILLIAMS: I think there's always going to be a little bit of a lag and you see banks, very large banks like JP Morgan, invest *billions* of dollars into innovation and technology. Why? Because they understand they have to keep up with the Fintechs and technology companies that are competing in the banking space, even when they're not insured depository institutions.

So I think you're going to see more and more traditional banks understand the ability of technology to procure new customers, to procure better compliance systems. You know, JPM happens to being on the forefront of that for the banking industry but I think a lot of other banks don't have the scale and the size of JP and they don't have the resources and so as you think about what can they do is allowing this third party partnerships within banks and non-banks, Fintechs in particular, that will bring the technology to the bank that doesn't have a lot of resources, like some of the largest banks in the United States…and yet be able to use some of the same technology that those banks are developing.

BRIAN SULLIVAN: Let's talk about a certain kind of bank…we call them Minority Depository Institutions. You've called these banks Mission-driven Banks, um, because they work and lend in communities where there may not be…there probably wouldn't be a bank if not for these banks. And yet we continue to see a decline in their numbers. That's troubling, isn't it?

CHAIRMAN MCWILLIAMS: It is troubling and here's why. The so-called MDIs, minority depository institutions…and I think it's just easier to call the "mission-driven banks"…serve communities that have traditionally not been served well by the banking system. And we're talking about, African-American communities, rural communities, immigrant communities, Native American, Hispanic, Asian, et cetera, et cetera. So you can have different sub groupings of the mission-driven banks based on the nature of the community that they serve. And it is absolutely essential that regulatory agencies like the FDIC work hard on figuring out how to understand that business model, how to best accommodate that business model in our regulation and supervision, and how to enable those institutions to grow so that they are able to effectively compete with non MDIs, non-minority depository institutions that function in regular consumer corners. So we're talking about large banks and their branches, et cetera.

And so as we look at MDIs, we understand that for example, in African-American banks, the average size of the deposit is very low. I forgot what the number was, but it was in the, probably 20-, 30-, 40-dollar range. And when that's your average deposit, so when that's your average deposit, you're looking at a very high cost to service that account on a per-deposit amount basis compared to some of the other banks. Because you have to do the same stuff on a regulatory side, as you do for much larger banks if you are, if you're an MDI and you have a $20 deposit.

So when we look at all of that, then we see the challenges that these banks face, we understand that they A). they need capital; B). they need a more bespoke way of being regulated and supervised by us, recognizing the nature of their communities and their business model to accommodate those communities; and C). recognizing the importance that they hold for the communities where they serve. They're not just a bank.

BRIAN SULLIVAN: Well, then you went and did something that nobody thought you could do by creating a Mission-Driven Bank Fund. And what is a public agency like the FDIC getting into that business for? Tell us a little bit about that. That was one of your legacy moments.

CHAIRMAN MCWILLIAMS: It was, it was. After I have met with a number of MDI CEOs, Them to teach me about their business model, their communities. I never assumed to, to understand what it's like to walk in other person's shoes. So usually when I meet somebody, I say, "tell me your story." Everybody has a story to tell, but not everybody's a good storyteller. Tell me your best story. You know, what do you do? How did you get here? And when you talk to people and they actually open up, you start to understand how they got into the business of banking. Why…who they're trying to serve and, and how? And so what I, what I, when I learned how difficult it is for some of these MDIs to function in their communities, especially for African-American MDIs I figured out we need to, we need to think outside the box, everything we've done thus far has not been sufficient and not only sufficient to satisfy our requirements under the law, but sufficient for these banks to truly compete, not just in their communities, but with non-MDIs.

And I was flying back from a conference…I believe in Texas, I was someplace over the middle of America. And I remember vividly it was government rates seats so I was all the way in the back of the plane. And I think people need to remember that when you're in the middle seat, you get both armrests, but neither of my co passengers understood that. So I was kind of a squished in the middle seat, looking at the screen in front of me and it was DirecTV and I remembered an episode of "Shark Tank" came up and I was kind of a mesmerized. And I thought, well, why don't we create a Shark Tank for minority banks? And when I landed, I called up my chief of staff and I said, we need a Shark Tank for minority banks, and I was told it can't be done.

I was told there was no…it's questionable under what authority. I was told, we don't know exactly how to structure this thing. And I said…you know what?...we have 400 lawyers at the FDIC and if one of those lawyers can't figure out how this we'll get *another* 400 lawyers and somebody will figure out how this should be done.

BRIAN SULLIVAN: Well somebody figured it out because now we do have a Mission Driven Bank Fund, but it's not a fund that the FDIC capitalized…it's a public…

CHAIRMAN MCWILLIAMS: Correct. We created a public private partnership. Yes. And we created so-called Mission-Driven Bank Fund that was only partially set up by the FDIC, but it's run by private investors. We are very grateful that Discovery…actually it was first Microsoft came to us and said, how can we help? And we told them about the idea of a Mission-Driven Bank Fund and it was early in its inception…the creation of this Fund and they said "how can we help?" And then Truist Financial came next and then the Discovery Channel came next then and so we are now at a position where we have about $120 million committed from these three institutions. And this Fund will be leveraged one-to-10. So for each dollar in capital that comes to this fund, there will be about$10 of lending in communities where Minority Depository Institutions and Community Development Financial Institutions serve. So that's about over a billion dollars' worth of lending in those communities, just through these three investors in the fund.

BRIAN SULLIVAN: You're proud of that.

CHAIRMAN MCWILLIAMS: I am very proud of that and you know what? I'm proud of the FDIC. We had to think outside the box and we did, and here we have this fund that people said couldn't be done.

BRIAN SULLIVAN: Well, let's talk more broadly about, uh, about this. You know, we hear a lot about the need to build a more diverse, equitable, inclusive, accessible banking system. In fact, these words are being, discussed broadly across the entire fabric of American life. When it comes to these principles…diversity, equity, inclusion, accessibility…is the FDIC itself a different place than it was three and a half years ago when you first came?

CHAIRMAN MCWILLIAMS: It is. It is. And when I look back, that may be my proudest achievement at the FDIC, changing the culture. And I was told when I came to the FDIC that it's an agency that has been forged over many decades since 1933 and there's a lot of history and the culture is impenetrable. I won't be able to change the culture. And what I encountered was an agency where culture needed changing. And so that took a lot of listening and understanding. And so instead of taking my car to our DC headquarters, I would drive to the FDIC building in Arlington, Virginia, parked there, get on the FDIC shuttle to our DC building and talk to people on the bus. I would talk to people in the cafeteria, I'd grab my lunch tray, and basically go to somebody's table and say, "tell me, about your experience at the FDIC. And you know, sometimes it took them about six minutes to realize, "Oh my God, that's the chairman!" And there's such a thing about being the chairman of FDIC…you know, I have to actually coach them to talk to me and say, "Listen, I don't care about your name, just tell me about your experience."

And so we've done a number of initiatives that we formalized in our strategic plan on diversity, equity and inclusion, including how we hire people, how we promote people within the FDIC, what opportunities are given to people early on in their careers, making sure that our examiners travel less, if we can do more offsite work so that mothers and fathers, while they're raising young children, don't have to spend too much time on the road. Because whenever an examiner spends about 88, 89 days on the road every year and that's really hard on if you have a young family it's hard in general, but if you have a young family that's even harder. And so we've done a number of these things that we are actually, frankly, very, very proud of and you can go to [our strategic plan on diversity, equity and inclusion] and read more about.

BRIAN SULLIVAN: Well, now as we wind our conversation up…by the way, you must be…I haven't done any data on this…but maybe *the* most well-traveled chairman in the history of the FDIC. You embarked upon a 50-state tour across the country and even though these trips became virtual in our COVID times, you felt the need to get out of Washington. Why is that?

CHAIRMAN MCWILLIAMS: Because it's a big country and we have 50 state regulators that we work with, uh, on a very, I would say diligent basis, we actually train more state examiners at the FDIC than we train our own because. We train, train examiners for all 50 states. And so it was important for me to actually go on the ground, talk to those superintendents and commissioners for banking institutions in each state, speak to the bankers on the ground to understand what are they doing in their communities and to comprehend what's the local economy like? Are we appropriately looking at that economy as we think about regulation and supervision? And so before the pandemic, before the onset of the pandemic in 18 months, my first 18 months on the job, I was able to visit about 30 states in person, we had 20 states left and the pandemic happened. And so we ended up doing the, the remaining states virtually. And that's one of my regrets for not having been able to do those last 20 states in person.

BRIAN SULLIVAN: Final message for…not only the FDIC employee base…but to all those banks and bankers out there that the FDIC supervises.

CHAIRMAN MCWILLIAMS: I will say that as I depart the FDIC, I have been surprised at the symbiotic nature that banks have with our communities. Quite often, if you sit in Washington, DC, it seems like it's us versus them in everything. And especially in such a politically polarized world that you just look through that lens at everything. And I realized having visited 30 states in person and going to some small rural communities and inner city banks. These bankers really actually care about their communities. They really want their communities to prosper and they want these communities to grow.

I will say the message to bankers is continue to manage your business as well. Understand that the FDIC is, in many ways, your partner in making sure that the banking system functions well, and that we have a common interest that is that they serve their customers and their communities, and that we have been available for technical support and other ways for them to continue doing so.

I will say to consumers, my message is, consider ways in which you can become a more bankable consumer. And that quite often means getting your credit score up. But we have a lot of educational resources in the United States…

BRIAN SULLIVAN: …Getting banked…

CHAIRMAN MCWILLIAMS: Yes, get banked…we have a Get Banked a public campaign, advertising campaign, marketing campaign, in Dallas and Atlanta. And now we're expanding it to other cities. We have our Money Smart curricula where you can actually learn how to become smarter about money. I know it took me *forever* to learn how to look at the mortgage statement and understand what am I paying and why am I paying so much? And so there are resources to be used for people to become bankable and bankable in the best way in the United States. And again, I use my own story in not being able to get a credit card and one of my biggest success in the United States rising to have the 850 credit score. It doesn't happen all the time because it varies. But I remember doing, taking a screenshot of my credit score when it hit 850 and sending it to a few friends and saying, can you believe this? I actually have an 850 credit score! Forget all of my other successes. You know, forget being the FDIC chairman I have 850. They didn't think that was possible. But what that means is that that little immigrant from 30 years ago, who couldn't get a credit card and was cleaning houses, now has every bank in the United States fighting for my business at favorable rates. And that's what we want for America.

BRIAN SULLIVAN: What's next?

CHAIRMAN MCWILLIAMS: I don't know. So it's an exciting, it's a bittersweet goodbye mainly because I thought I would have a little bit more time to finish some of the important initiatives at the FDIC, but I feel good knowing that we have been able to change the culture. And I think once you change the culture for better, there's no going back. So I feel like I'm leaving FDIC in a really good shape from that perspective. I think we have moved the needle on innovation at the FDIC and we have become one of the most proactive and energized agencies when it came to innovation.

I think we have been able to navigate through the pandemic really well with our financial institutions, making sure that they work with their customers. And so as I reflect upon all of that, I would say I'm a little bit tired, except that I'm like an Energizer bunny I just keep going. And, and I only know one gear which is hustle. And so I don't know what's around the corner, but I can assure you that I will continue to work hard whatever awaits me.

BRIAN SULLIVAN: Well, Madam Chairman, it is indeed bittersweet that as we thank you for your frequent visits to the FDIC podcast, we also say bon voyage to you. Thank you for your service and all the best as you embark upon your next chapter.

CHAIRMAN MCWILLIAMS: Thank you so much, Brian. And to you, I will say it's not a goodbye. It's a see you later.