

The 2013 Interagency
Minority Depository Institution and CDFI Bank
Conference

**Strategies for Success
through Collaboration**

**Federal Deposit Insurance Corporation
Federal Reserve Board
Office of Comptroller of the Currency**



June 10 –12, 2013
FDIC Seidman Center
Arlington, VA



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Every two years, the Federal Banking Regulatory Agencies (Federal Deposit Insurance Corporation (FDIC), Office of the Comptroller of the Currency (OCC), and Board of Governors of the Federal Reserve System (FRB), host this important interagency conference for FDIC-insured minority depository institutions in order to help preserve and promote their mission. This year's event was held June 10-12 at the FDIC's L. William Seidman Center in Arlington, Virginia. FDIC Chairman Martin J. Gruenberg, Federal Reserve Board Governor Sarah Bloom Raskin, and Comptroller of the Currency, Thomas J. Curry, welcomed other senior Federal officials and Minority and Community Development Financial Institution (CDFI) bank executives from around the country, to explore "*Strategies for Success through Collaboration.*"

The conference encouraged interactive discussion among those who believe minority depository institutions and CDFI banks are uniquely positioned to create positive change in their communities. The conference also encouraged a diverse array of participants to express their views.

During plenary sessions on the first morning, the conference heard from Washington. Senior officials from Federal agencies provided updates on programs and policies that can help minority and CDFI banks achieve their goals. During the afternoon, it heard from the industry. Bank CEOs and investors "told their story," communicated their strategies and successes, and made recommendations to the industry, Federal policy makers and others.

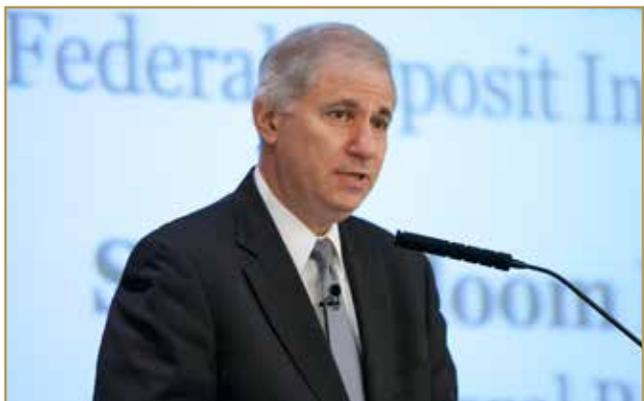
On the second morning of the conference, interactive roundtable sessions invited bankers, government officials, and all participants, to explore forming partnerships and networks to help Minority and CDFI banks achieve economies of scale and improve overall performance. In the afternoon, bank directors, managers and staff also had the opportunity to attend brown bag lunch regulatory briefings and technical assistance training sessions, to learn how to improve overall regulatory performance.

Conference attendance generally included Minority and CDFI banks, their CEOs, Board members, managers and staff, speakers, and Federal agencies. This is the first time that the conference included CDFI banks, which by definition serve low income areas. About half of all CDFI banks are also minority banks. Nearly 120 MDI and CDFI bankers attended, representing 77 banks. The diverse participants ranged in size from \$12 million in total assets to over \$12 billion in total assets, and included: 25 African-American banks; 21 Asian-American banks; 15 Hispanic-American banks; 5 Native-American banks; and 5 CDFI-only banks. Attendees included banks supervised by the FDIC, OCC and FRB. Banker attendance was 31 percent higher than in 2011, when 90 minority bankers attended the interagency conference. Forty-two banks attended in 2013 that did not attend in 2011 – representing increased diversity and inclusion.



Robert W. Mooney, FDIC's National Director of Minority and Community Development Banking, kicks off the conference

Opening Keynote Addresses



FDIC's Chairman Martin J. Gruenberg welcomes Minority and Community Development Bankers

Martin J. Gruenberg, Chairman, FDIC

Good morning. Welcome to Washington. It is good to be with you all again. I had the opportunity to meet many of you last year at the Community Banking Initiative Roundtables we held across the country and, recently, at the NBA Legislative Conference here in Washington.

Today and tomorrow, we look forward to hearing your perspective as Minority and Community Development Bankers. Your role in today's panel discussions, and tomorrow's interactive roundtables, will help us explore how we can all work together to help preserve minority institutions.¹

Thank you for joining us.

Minority and CDFI banks play a vital role. Minority bankers have been serving the needs of their communities, in some cases, for nearly 125 years. Your mission is important. You provide responsible banking services to those who might not otherwise have access to a bank. And, you serve some of the most challenging markets in the country.

As an industry, you have been determined and resilient, facing numerous difficult periods over the years, including the recent recession. Even though we are now hearing some good news – declining unemployment, the recovering housing market, and growing consumer incomes – we know that in many of the communities you serve, the pace of recovery is lagging. And so, we know that you may continue to face challenges with: earnings, asset quality, narrow margins and access to capital. Yet many of you have withstood the challenges of these difficult times and are now beginning to turn the corner. We hope to foster that momentum.

One way we think we can contribute to your efforts is by conducting research specifically on MDI and CDFI institutions – to better understand the role they play in our financial system and in our communities, and what types of challenges they face in the post-crisis environment. Rich Brown, the FDIC's Chief Economist, will provide an overview of our results this afternoon, and we plan to release a paper summarizing these results in the coming months.

¹ In August, 1989, Congress enacted the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA"). Section 308 of FIRREA established the following goals: preserve the number of minority depository institutions; preserve the minority character in cases of merger or acquisition; provide technical assistance to prevent insolvency of institutions not now insolvent; promote and encourage creation of new minority depository institutions; and provide for training, technical assistance, and educational programs.

The framework for our analysis is similar to the one we applied to community banks in the study we released last year. It seeks to provide a factual, data-driven foundation that can help to inform policy discussions in the future. We will certainly be interested in discussions at this forum that can help to inform our work. I thought I would take a few moments now to share with you some preliminary findings that caught my attention.

First, I think it is fair to say that MDIs are a relatively small segment of the overall banking industry. They represent 2.6 percent of bank charters and 1.2 percent of industry assets (at the end of last year). But, they are extremely important to the communities they serve.

In June of last year, over half of all MDIs were located in the four most populous states – California, Texas, New York and Florida. Eighty-eight percent of MDIs were headquartered in a metropolitan statistical area or “MSA.” (There are 374 MSAs which are home to about 84 percent of the U.S. population). They are especially prominent in some of the nation’s largest cities, led by Los Angeles, New York, Miami, Chicago, Atlanta and Houston.

MDIs held just 1.5 percent of all metro-area deposits in 2012. But, in 5 metro counties with a population over 250,000 each, they held more than 20 percent of deposits. And, notably, in both Los Angeles County and Miami-Dade County, with combined populations of 12 million, MDIs held more than 9 percent of all deposits.

From the location of their banking offices, we know that MDIs are more likely to do business with low- or moderate-income, or “LMI,” households than other banks. In 2011, the median MDI covered an area where 46 percent of the population lived in LMI Census tracts. In fact, the LMI share serviced was more than 2.7 times greater than that of non-MDI community banks. African-American MDIs have been particularly successful in reaching LMI populations. About two thirds of the people in the estimated service area of the median African-American MDI reside in LMI Census tracts.

We also know from the HMDA data that MDIs are much more likely than non-MDIs to make mortgage loans in LMI Census tracts. Again, African-American MDIs led the field here, with the median institution making about 52 percent of its mortgage loans in LMI tracts in 2011.

MDIs are also highly effective in making mortgage loans in their minority communities. In 2011, the median African-American MDI made 67 percent of its mortgage loans to African-American borrowers. The median Hispanic MDI made 65 percent of its mortgage loans to Hispanic borrowers. And, the median Asian-American MDI made 57 percent of its mortgage loans to Asian-Americans. By contrast, the median non-MDI lender made less than one percent of its mortgage loans to each of these three groups.



Robert W. Mooney, Governor Sarah Bloom Raskin,
Comptroller Thomas J. Curry

This is not to say that MDIs don't face a number of challenges. As a group, they have tended to underperform other groups of institutions by standard measures of profitability. They have had to set aside large provisions for loan losses over time – consistent with the economic challenges that their customers have faced in recent years. And expense ratios have been especially high for the smallest MDI charters – those with assets less than \$100 million – many of which serve African-American, Native-American, and multi-racial populations.

As a result of these and other challenges, 51 MDIs voluntarily merged out of existence during our 12-year study period, while another 31 failed. Overall, the failure rate for MDIs was about three times higher than it was for the industry as a whole.

Nonetheless, the absolute size of the MDI sector grew in terms of both number and assets during the study period. Forty-four new MDIs were chartered, while the number of institutions moving to MDI designation outnumbered those leaving MDI status by more than 4 to 1. Amid these changes, I would like to emphasize that we have continued efforts to enhance the MDI sector. While a slight majority of the MDIs that merged or failed during our study period were acquired by non-MDIs, almost two-thirds of the assets of the merged institutions and 87 percent of the assets of the failed institutions wound up staying with MDI acquirers. And, we remain committed to do what we can to preserve the minority character of these institutions in cases of merger and acquisitions going forward.

The FDIC's MDI Program

I know that you are familiar with the FDIC's minority bank program. During this past year, the FDIC appointed a permanent dedicated executive to lead the program. I'd like to thank Bob Mooney for his passion and leadership in this role, as National Director of Minority and Community Development Banking. And, I'd also like to acknowledge Doreen Eberley, our new Director of the Division of Risk Management Supervision, who also has a track record as a strong advocate for our MDI program, both as the Director of our New York Region and now as the Division Director.

Under their leadership, we are supporting increased collaboration among Minority banks and, in particular, with larger institutions. And, we are seeking to strengthen our technical assistance and outreach programs. You have a special purpose, one that deserves special consideration. For this reason, we value the dialogue we had at our regional MDI roundtables last year – and that we will have during this conference. It is important that we hear your comments about the examination process and rulemakings. In that regard, I want to thank you for the time you took to submit comment letters on our recent capital proposals and the specific impact they would have on minority and CDFI banks in particular. Your comments are helpful and will enable us to craft a more balanced approach.

Conclusion

Let me conclude by saying that the community banking sector, overall, and minority banks, in particular, are at a unique juncture in their history. The nation's demographics are changing. New technology is opening new doors for underserved consumers. And, competition from non-bank financial service providers grows. But these challenges create opportunities for community and minority banks. The FDIC has begun to explore some of these at the suggestion of our Advisory Committees on Community Banking and Economic Inclusion. Some of our Advisory Committee members are minority and CDFI bankers – and I am pleased to see a few of you here today – who are participating in these forward-looking activities. We would like to work together to develop partnerships that tap into these opportunities.

I know that several of you have started exploring new ways to collaborate with one another. You are beginning to discuss how MDI and CDFI bankers might work together to develop business models to share the effort - and reduce the costs - for activities in several critical areas (such as information technology, capital raising, asset disposition, compliance management, and the development of affordable but profitable products, services and delivery systems). I hope this conference enables you to build on these collaborative strategies for success.

I look forward to working with you to ensure a vigorous minority and community development banking sector – one that continues to be a source of hope and financial progress for minority communities.

Thank you.



Martin J. Gruenberg delivers keynote address

Sarah Bloom Raskin, Governor, Federal Reserve

Thank you, Chairman Gruenberg, for that generous introduction.

I am pleased to have this opportunity to speak at the 2013 Interagency Minority Depository Institutions National Conference. I'd like to begin by thanking the Interagency working group, consisting of staff from the Federal Deposit Insurance Corporation, the Federal Reserve Board, and the Office of the Comptroller of the Currency for their hard work in coordinating this event and developing the theme of this conference, "Strategies for Success through Collaboration." I believe that they have put together a very exciting agenda and I look forward to hearing the unfolding of a dialogue on how minority depository institutions and government institutions can collaborate in helping small businesses to grow and support more vibrant and prosperous communities.



Governor Sarah Bloom Raskin, Board of Governors of the Federal Reserve, addresses the conference

In 1989, Congress took an important step when it enacted the Financial Institutions Recovery, Reform, and Enforcement Act 1989 (FIRREA). Among other things, FIRREA fosters collaboration between minority depository institutions (MDIs) and the federal banking regulators.² In response to this statutory requirement to promote ownership of minority depository institutions and support the viability of existing ones, the agencies began to convene the executive officers of MDIs together with their banking regulators to share perspectives on the particular challenges facing MDIs and to consider ways in which we can address those challenges together. Those gatherings became annual and then biennial conferences and this is the sixth such conference since they began in 2005. I should note that while the Federal Reserve was not originally subject to the MDI provisions of FIRREA, we nevertheless participated in these conferences and other interagency events because we supported the aims of FIRREA.

As a matter of fact, I would suggest that our support over the years demonstrates that even if it weren't for the requirements of FIRREA, the work of minority depository institutions is worthy of focus because of your contribution to the viability of local economies and your commitment to underbanked customers.

² See Section 308 of FIRREA, Pub. L. No. 101-73, 103 Stat.183 (1989)

In my brief remarks this morning, I will touch on a few of the challenges currently facing MDIs and their customers. I will also discuss how the Federal Reserve may be able to help minority depository institutions meet these challenges.

Challenges

Many of the communities across America face a constellation of economic challenges from the recent financial crisis. According to a 2011 FDIC survey, many minority groups, including African-Americans, Latinos, and Native Americans, continue to represent the highest concentration of unbanked and underbanked households.³ The survey's finding suggests that members of many of the communities your institutions serve may not be fully benefiting from the financial access and inclusion that traditionally have been critical to household and community wealth building. Indeed, home loan data indicate that from 2010 to 2011, home purchase lending fell at about twice the rate in areas with higher minority concentrations than in other neighborhoods.⁴

What is occurring that is heightening the challenges now found in many communities across the country? I would suggest that some of these challenges are heightened by trends in underwriting. For example, many banks have transitioned from relationship-based lending models to credit scoring models. While this method of lending sometimes is believed to be more cost-effective and helps ensure that lending is nondiscriminatory, it often makes it more difficult for some borrowers to qualify for credit. In some cases, reliance on automated credit scoring models may impede a lender's ability to balance credit scores with information gleaned from other banking relationships, including information observed through checking and savings account activity, such as the absence or presence of overdrafts, savings tendencies, and spending patterns. Other sources of information about an individual's qualifications may also be missed, such as rent and utility payment history and experiences with alternative sources of credit such as nontraditional lenders.⁵

Another emerging banking trend threatens the mere establishment of checking and savings accounts for lower-income minority communities. Specifically, branches located in low-to-moderate income communities have begun to disappear at an increasing rate,⁶ worsening the unfavorable banking conditions in lower-income communities.

In addition, high-priced title loan and check-cashing facilities have replaced branches in many lower-income communities. Such facilities can be prohibitively expensive, particularly for low-to moderate-income individuals and families who can least afford these services. Staff at the Federal Reserve has found that the practice of borrowing from banks or other lenders beyond their service area is associated with a higher likelihood of default.⁷ The combination of the increasing geographical dispersion of banking services outside of low-income communities and the increasing proximity of costly alternative financial services within these communities is likely to only compound the financial vulnerability of lower-income minority communities.

³ Refer to "2011 FDIC National Survey of Unbanked and Underbanked Households" (September 2011), <http://www.fdic.gov/householdsurvey/>

⁴ See Robert. B. Avery, Neil Bhutta, Kenneth P. Brevoort and Glenn B. Canner, (2012) "The Mortgage Market in 2011: Highlights from the Data Reported under the Home Mortgage Disclosure Act," Federal Reserve Bulletin, vol. 98, (December) pp. 1-46, at www.federalreserve.gov/pubs/bulletin/2012/articles/HMDA/default.htm.

⁵ Refer to "Do Bank Branches Matter Anymore?" O. Emre Ergungor and Stephanie Moulton, FRB Cleveland (August 2011), www.clevelandfed.org/research/commentary/2011/2011-13.cfm

⁶ Refer to "Bank Closings Tilt Toward Poor Areas," The New York Times, Nelson Schwartz, (February 2011)

⁷ Refer to "Beyond the Transaction: Depository Institutions and Reduced Mortgage Default for Low-Income Homebuyers" O. Emre Ergungor and Stephanie Moulton, FRB Cleveland (August 2011), http://www.chicagofed.org/digital_assets/others/events/2011/bsc/moulton_0504.pdf. Also, evidence indicates that the incidence of higher-priced or more risk lending is greater for loans extended by depository institutions outside their local communities than it is within such areas. Refer to Robert B. Avery, Kenneth P. Brevoort, and Glenn B. Canner (2006), "Higher-Priced Home Lending and the 2005 HMDA Data," Federal Reserve Bulletin, vol. 92 (September) available at <http://www.federalreserve.gov/pubs/bulletin/2006/hmda/default.htm>.

And this is where the comparative advantage of MDIs comes into play to counter the adverse effects of changes in the financial industry that may disproportionately affect minority and lower-income consumers. With close knowledge of your local markets and your ability to establish banking relationships with the most economically vulnerable, your banks provide opportunities that may not otherwise exist.

With your business focus on serving the under-banked, the recent recession has been a period of tremendous challenge. As your customers have suffered financially, so too have many of your institutions. Consequently, and just like many other community banking organizations, it is not surprising that some MDIs may have struggled with diminished profitability and weakened asset quality. Some institutions may need additional capital, which, for many, has been difficult to obtain. But I suspect that you continue to serve these communities because you understand that access to traditional banking services is integral to neighborhood revitalization and economic improvement and because you worry that if you don't serve your community, no one else will.

Federal Reserve MDI Initiatives

As bankers running MDIs, I understand that you may feel torn between serving communities that need banks that provide affordable credit, savings vehicles, and good financial advice, and not being able to provide those services. And as regulators, we need to make sure that the regulatory process does not skew the balance in a way that has adverse effects on institutions like yours. We see public value in your endeavors and, while we must ensure your banks are safe and sound, we do not want the regulatory process to overwhelm you.

The Federal Reserve, for example, recognizes the important role of MDIs in our economic development and progress and takes steps to promote the viability of these institutions through its Partnership for Progress program. Established in 2008, this program is designed to foster and support minority-owned and de novo depository institutions. As most of you know, at the core of the program is the implementation of a series of web-based modules and materials to assist banks in addressing three distinct development stages: starting a bank, managing the transition from startup to an established bank, and building shareholder value once a bank has been established on sound footing. This fall, the Federal Reserve plans to add the fourth web-based module on "*Understanding and Improving your CAMELS Supervisory Ratings*." We believe that this fourth module will enhance all community bankers' understanding of the thought process that bank examiners follow and the key decision points they consider when assigning CAMELS ratings to a bank. Our hope is that this module will help promote more effective interaction between bankers and examiners with regard to examination ratings.



Governor Sarah Bloom Raskin responds to a banker question

As is the case with the other federal regulators, the Federal Reserve is combining the coordination of our MDI technical assistance program with efforts under way to support community banking organizations more generally. By joining these efforts, we hope to be able to more effectively highlight how MDIs can benefit from efforts to limit regulatory burden and foster prudent lending among all community banks. An important part of this effort will be a linking of the Partnership for Progress website⁸ with the Community Banking Connections website⁹ to unite resources that are beneficial to both community banks and MDIs. In addition, we continue to work with District Partnership for Progress program coordinators at each Federal Reserve Bank on outreach and training activities for MDIs, encouraging them to take into account and address the unique features of MDIs.

We need to remain committed to training our examiners on the business philosophy of MDIs. Effective communication is important in any partnership, so the Federal Reserve is in the process of instituting a post-examination program to follow up with state member bank MDIs after each examination to assess the quality of information flow during the examination and ensure that our examiners carefully addressed bankers concerns, explained the applicability of new regulations, and solicited input on how we can best support the MDI mission going forward.

Capital Attainment Opportunities through CDFIs

We clearly understand the issues some of your banks have encountered in raising new capital. One source of capital that may be of interest is the Treasury Department's Community Development Financial Institutions Fund, or the CDFI Fund. We have some CDFIs here today, so many of you probably know that Congress created this fund in 1994 to promote economic revitalization and community development by supporting community development financial institutions. With this objective, this fund promotes access to capital through a number of competitive award programs. Some of the awards available to CDFIs include the Bank Enterprise Award Program, which provides a financial incentive to banks to invest in their communities, and the Native Initiatives Award, which provides financial assistance to Native-American CDFIs.

Similarly, the Treasury plans to launch a multi-billion dollar initiative under the CDFI Bond Guarantee program to assist CDFIs in making investments for eligible community or economic development purposes. Upon completion of the final rules, MDIs with CDFI certification may access this program. As minority depositories, many of you are eligible to become a certified CDFI without having to change your business model. In fact, almost 21 percent of MDIs currently are, or have been, certified CDFIs. This means that most of you have not become CDFI Fund-certified and might be able to benefit from the Fund's programs. The CDFI's website contains detailed eligibility criteria.¹⁰

Conclusion

In closing, I want to underscore the sharpness of the challenges you face. But as bankers at minority depository institutions, you are uniquely positioned to participate in fostering the well-being of the communities that remain economically stressed. We must continue talking and collaborating so that we do not stand in the way of addressing the best and most practical ways to address the challenges that you confront. These challenges are our country's challenges, and I am confident that we will be successful in ensuring that your institutions remain strong and continue to provide critical financial support to your communities.

⁸ See <http://www.fedpartnership.gov/>

⁹ See <http://www.communitybankingconnections.org/>

¹⁰ See <http://www.cdfifund.gov/>.

Thomas J. Curry, Comptroller of the Currency

Thank you, it's a pleasure to be here today. This conference is by no means the largest one I will attend this year, but in my mind, it's one of the most important. The OCC has a deep interest in the success of the nation's community banks generally, and we are particularly concerned with those community institutions that are minority-owned. Minority-owned banks and thrifts provide financial services to consumers and businesses in communities that might not otherwise have access to a financial institution, and so your success is vital to the economic well-being of disadvantaged or under-served neighborhoods in cities and towns across America.

Managing a community bank or thrift is hard enough in good economic times. But the recent financial crisis created the most difficult economic environment of my lifetime, and every bank and thrift has had trouble keeping up. Minority institutions were especially hard hit. Your customers were stretched thin, and that affected your margins, your loan performance and your profitability in a very direct and negative way, and made it more difficult for your bank or thrift to provide credit to help your communities recover.

The good news is that minority institutions are returning to health and profitability, and that puts them in a better position to serve as a catalyst for economic growth.



Comptroller of the Currency Thomas J. Curry delivers keynote address

In fact, we see clear evidence today that minority banks and thrifts are bouncing back. Margins have improved and aggregate profitability among minority-owned banks and thrifts has returned to pre-crisis levels. Fewer minority institutions are unprofitable, and, taken together, return on assets is approaching one percent. It is true that operating revenue is recovering slowly, but minority banks and thrifts are managing expenses tightly and benefiting from improved loan quality and the resulting reduction in loan loss provisions. We at the OCC watch these so-called "reserve releases" closely because we don't want banks and thrifts to boost profits at the expense of future stability. However, noncurrent loans have dropped sharply at MDIs since 2009, so there may be some room to reduce quarterly provisions at individual institutions, depending upon asset quality trends and risk management practices. That would be especially true at MDIs where capital has grown stronger over that period.

These trends are encouraging, since they put minority-owned institutions in a better position to support economic growth in their communities, and we at the OCC stand ready to do everything we can to help. In fact, if you'll permit me to pause for a short commercial break, I'd like to encourage you to check out the resources we make available to community banks and thrifts that are especially relevant to minority-owned institutions.

You'll find a wealth of material on our website at OCC.gov. For example, our Community Affairs pages have information covering everything from small business lending to New Markets Tax Credits, and you'll find more resources available on our Minority Banker pages. If you're a national bank or federal thrift, I hope you're taking advantage of BankNet, which has a variety of tools for community banks, including one to help you stress test your loan portfolio and another that makes it easy to compare your bank or thrift against a group of peer institutions you select yourself. And I also hope you'll take advantage of our workshops for bank directors. They're an efficient way to make sure your directors have the knowledge base they need to do their job, and we waive the fees for minority institutions.

As you begin to look at the resources available through the OCC, you'll see that they reflect our determination to do everything possible to support community banking. All of you are community bankers, and you are dealing with the same challenges that small banks face everywhere. But you'll also see a recognition that minority institutions deal with issues that are unique to their geography and their customers, and I can tell you that we at the OCC are doing everything we can to help you deal with those challenges.

I'm especially proud of the way we tailor our support to the specific needs of individual minority institutions. For example, one of our ADCs met with a minority institution recently and offered assistance with the bank's strategic plans to grow and deploy excess liquidity. In another case, an ADC met with an institution to discuss its plan to raise capital and acquire a troubled institution through an FDIC-assisted purchase. In other cases, our ADCs have provided strategic advice on everything from TDRs to OREO accounting.

As part of our effort to support minority institutions, we've established an advisory committee focused squarely on issues of importance to minority national banks and federal thrifts. We held the first meeting of our Minority Depository Institutions Advisory Committee on March 5, and it was a very productive session. Part of the meeting was devoted to briefings from our staff, but what I found most important was the opportunity for free-wheeling discussions. Our committee is made up of a diverse group of industry leaders, and there was no shortage of ideas or questions. One committee member noted that the opportunity to trade ideas with his peers was a valuable experience in and of itself. Another discussed the importance of having the right people in the room.

Getting the right people in the room is important, and among our speakers was Rep. Maxine Waters, the ranking Democrat on the House Financial Services Committee. I think everyone appreciated the opportunity to hear her views on minority institutions. I'm pleased to say we also had senior representatives from the Small Business Administration present, as well as a representative from a large national bank. One of our thoughts in seeking large bank participation was to further discussion of partnerships that would benefit minority institutions.

That's a subject that we've devoted considerable time to over the years, particularly in the context of the Community Reinvestment Act, which I think is an extremely important tool for ensuring the viability of minority institutions.

The federal financial institution regulators are in the midst of a thorough review of the Community Reinvestment Act. In light of the many changes that had taken place since the last major regulatory revision in 2005, we believe that it is time to see if we can make CRA evaluations better reflect today's markets and today's banking industry. We started by holding hearings in four cities and inviting public comments. The comment process generated a wealth of ideas from the public, including ideas on how CRA could be used to benefit minority banks and thrifts.

New Questions and Answers have been proposed to address feedback received on several items. And we have received constructive input on these proposals as well as suggestions as to other actions we might take to improve our administration of CRA. Minority bankers provided feedback through our CRA review process, and I would encourage you to continue to make your views known about how we can best update CRA to reflect the financial services marketplace today.

The current CRA statute, regulations, and interpretive Questions and Answers recognize the vital financial services that minority institutions provide and their pivotal role in promoting the economic vitality of the communities they serve. Specific provisions authorize CRA consideration for majority-owned banks that provide capital investment or loan participations, or that undertake other ventures in cooperation with minority financial institutions, provided that these activities help meet the credit needs of the local communities in which the minority institutions are chartered.

National banks and federal savings associations can also make equity investments in minority institutions under the public welfare investment authority, and these investments would be considered qualified investments in a large bank's CRA performance evaluation. Also, the geographic requirements of CRA are broadened in order to encourage banks to partner with minority institutions – so a majority-owned bank will receive CRA consideration even if the minority financial institution is not located in or the CRA activities do not benefit the bank's own assessment area. The OCC has a fact sheet on our website that lays out in detail how these CRA provisions apply and explains how these activities can factor into a majority bank's CRA performance.

All of these incentives are helpful if they encourage investment in minority-owned banks and thrifts. For as long as I've been involved in bank regulation, the ability to raise capital has been a key to your growth and to your ability to serve your communities. Today, I know many of you are worried about the new capital requirements, and whether you will be expected to add to your capital base. We're sensitive to that concern, and we've spent a lot of time looking at community bank capital to see how smaller institutions might be affected. We do believe most community banks already have sufficient capital to meet the new requirements, and we are committed to doing everything possible to implement the forthcoming rules in a way that recognizes the special circumstances of community banks.



Comptroller Thomas J. Curry responds to a banker question

But I recognize that in the aftermath of the financial crisis and recession, some of you need to be able to raise more capital to shore up your balance sheets, while others will seek additional equity so you can grow to meet the needs of your communities. That can be difficult for any bank or thrift, but it's a particular challenge for minority institutions.

There are only so many places to go for investment capital, and under current rules, there's a real danger that if you raise capital from non-minority investors, including larger financial institutions, you will dilute your minority ownership to the point that you no longer qualify as a minority institution. And, in fact, the OCC's definition of minority depository institutions specifically required at least 51 percent minority ownership.

We've taken a close look at that issue, and recently updated our policy statement on minority banks and thrifts in a way that helps address that concern. We still think it's important that more than half of the equity be held by minorities, women or economically disadvantaged individuals. But we also think it's important that existing institutions have some flexibility to seek out new sources of capital, and so the policy statement I signed last week includes new language to accomplish just that.

First, our new policy statement provides that mutual federal savings associations may be considered MDIs if a majority of the board is minority and if the communities it serves are predominantly minority. In addition, a mutual can be considered a minority institution if women comprise a majority of the board and hold a significant percentage of senior management positions.

Second, we have added discretionary language that allows us to continue to treat an institution as an MDI even if it no longer meets the 51 percent ownership criteria provided that it meets two requirements. First, it must primarily serve the credit and economic needs of the community in which it is chartered. And second, that community must be predominantly minority.

I think that's at least a good start. Our policy statement recognizes that minority institutions should be just that – owned by investors who are part of a minority group – but it also provides some discretion to ensure that the financial and credit needs of minority communities are met. In addition, we exclude U.S. subsidiaries of foreign banks to ensure that the benefits of being designated as an MDI go only to true minority institutions.

But while it's a good start, we continue to be interested in hearing from you about how we can best address this and other issues. I can assure you that the OCC will continue to look at our MDI advisory committee as an important platform for raising and addressing these questions. In fact, I'm looking forward to hearing from the OCC-supervised institutions in this room tomorrow morning at the breakfast we're having with minority-owned federal banks and thrifts.

And now, in the spirit of continuing a dialogue, I'll stop to ensure that we have time for your questions and comments.

Thank you.

Plenary Sessions

Partnering with Washington

Panel Moderator	
Don Graves	Executive Director, President's Council on Jobs and Competitiveness, and Deputy Assistant Secretary for Small Business, Community Development and Housing, US Department of the Treasury
Panelists	
Carol Galante	Federal Housing Administration Commissioner and Assistant Secretary, HUD
Donna Gambrell	Director, CDFI Fund, US Treasury
Jeanne Hulit	Associate Administrator, Office of Capital Access, US Small Business Administration
Mark Brodziski	Director, Special Programs, US Department of Agriculture
Charles Tansey	Senior Vice President, Small Business, US Export-Import Bank

Overview

During this plenary session, senior officials of the Federal government discussed programs of particular interest to Minority and CDFI Banks. Departments and agencies included: the U.S. Treasury, FHA, Small Business Administration, CDFI Fund, USDA, and the US Export-Import Bank. Specific Federal programs that can positively impact bank performance were overviewed.

General Discussion

Presidential Appointees and Senior Executives of Federal agencies provided an overview of programs MDI and CDFI banks could use to help serve their communities. They invited participants to partner with each of their agencies. And, they introduced members of their staff who would be available throughout the conference to provide more specific information and technical assistance. For reference purposes, additional background information on some of these programs follows.

US Treasury Programs

States Small Business Credit Initiative (SSBCI)

The SSBCI is expected to help spur bank lending and other financing for small businesses. The Small Business Jobs Act created the State Small Business Credit Initiative (SSBCI),¹¹ which was funded with \$1.5 billion in order to strengthen state programs that support lending to small businesses and small manufacturers. Participating states use the Federal funds for programs that leverage private lending to help finance small businesses and manufacturers that are creditworthy, but are not getting the loans they need to expand and create jobs.

SSBCI allows states to build on their own successful models for State small business programs, including collateral support programs, Capital Access Programs (CAPs),¹² loan guarantee programs and loan participations. The *Overview of SSBCI for Lenders*,¹³ which details benefits for lenders, indicates that funded state programs are also intended to help lenders expand their small business lending base, make their own credit decisions, and support local economic development. More details, including state-by-state information on how community banks and other lenders can participate, are available at <http://www.treasury.gov/ssbci>.

¹¹ <http://www.treasury.gov/ssbci>.

¹² <http://www.sba.gov/about-offices-content/1/2458>

¹³ [http://www.treasury.gov/resource-center/sb-programs/Documents/SSBCI percent20Overview percent20for percent20Lenders percent2009-28-12.pdf](http://www.treasury.gov/resource-center/sb-programs/Documents/SSBCI%20Overview%20for%20Lenders%2009-28-12.pdf)

To encourage financial institutions to consider using the SSBCI funded state programs to enhance small business lending, and clarify regulatory questions, the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) have each provided guidance. In its Community Affairs publication, Community Developments Investments,¹⁴ the OCC described examples of how banks have used some of the programs, and answered frequently asked regulatory questions on a dedicated page¹⁵ of its website. And, the FDIC Community Affairs Program has helped to facilitate meetings in several states on the initiative for community banks, Treasury and State program officials, and others. The FDIC has also answered frequently asked regulatory questions in a document¹⁶ on its website.

Community Development Financial Institutions Fund (CDFI Fund)

During the session, the U.S. Treasury’s Community Development Financial Institutions Fund (CDFI Fund) announced an important, new *Capacity Building Initiative* training series for CDFI banks that are also Minority Depository Institutions (MDIs), and MDIs working toward becoming certified as CDFI banks. Out of nearly 1,000 CDFIs, 80 CDFIs are banks and nearly 40 of these banks are MDIs.

Deloitte Financial Advisory Services will provide the CDFI Fund’s Preserving and Expanding CDFI Minority Depository Institutions Training Series¹⁷ with the support of relevant industry subject matter experts. The series will address the unique challenges facing CDFI MDIs, and will build their capacity to provide community development and financial services to their target markets. As part of the series, an in-depth assessment of the needs of CDFI MDIs will form the basis of unique and customized trainings and workshops.

“Minority Depository Institutions serve a vital function by providing needed financial services such as checking or savings accounts and in building access to credit and capital for minority and low-income communities across the country,” said CDFI Fund Director Donna J. Gambrell. *“I am proud that the Capacity Building Initiative is continuing to anticipate and respond to the needs of the CDFI industry, and this training series will provide a unique opportunity for CDFI MDIs to discuss with their peers how to develop and grow their organizations.”*



The “Partnering with Washington” panel included left to right, Don Graves, Carol Galante, Donna Gambrell, Jeanne Hulit, Mark Brodziski, Charles Tansey

¹⁴ <http://www.occ.gov/publications/publications-by-type/other-publications-reports/cdi-newsletter/ssbci-feb-2013/ssbci-ezine-article-1-look-inside.html>

¹⁵ <http://www.occ.gov/topics/community-affairs/resource-directories/small-business/faq-regulatory-issues-concerning-state-sb-credit-initiative.html>

¹⁶ <http://www.fdic.gov/consumers/banking/businesslending/faq.html>

¹⁷ http://www.cdfifund.gov/news_events/CDFI-2013-26-CDFI_Fund_New_Capacity_Building_Initiative_Training_CDFI_Minority_Depository_Institutions.asp

The Preserving and Expanding CDFI Minority Depository Institutions series will provide training and technical assistance on a variety of topics, including building leadership capacity, expanding capitalization, managing organizational transformation, enhancing operational performance, and the compliance and regulatory impacts on community banking models.

All training opportunities will be posted on the CDFI Fund's website in the coming months. As with other Capacity Building Initiative series, the *Preserving and Expanding CDFI Minority Depository Institutions* series will provide webinars, as well as an in-depth Virtual Resource Bank on the CDFI Fund's website for the general public.

Other CDFI Fund accomplishments and initiatives were also overviewed. Since its creation, the CDFI Fund has awarded over \$1.7 billion to community development organizations and financial institutions; and it has awarded allocations of New Markets Tax Credits which will attract private-sector investments totaling \$36.5 billion, including \$1 billion of special allocation authority to be used for the recovery and redevelopment of the Gulf Opportunity Zone.

CDFI Fund initiatives¹⁸ currently available to CDFI and MDI banks and others that promote access to capital and local economic growth include:

1. The Community Development Financial Institutions Program,¹⁹ by directly investing in, supporting and training CDFIs that provide loans, investments, financial services and technical assistance to benefit underserved populations and communities
2. The New Markets Tax Credit Program,²⁰ by providing an allocation of tax credits to Community Development Entities which enable them to attract investment from the private sector, and reinvest these amounts in low-income communities' businesses and real estate projects
3. The Bank Enterprise Award Program,²¹ by providing an incentive for all banks to invest in their communities and in CDFIs
4. The Native Initiatives Program,²² by taking action to provide financial assistance, technical assistance, and training to Native CDFIs and other Native entities proposing to become or create Native CDFIs
5. The Healthy Food Financing Initiative,²³ by providing financial and technical assistance to help CDFIs to finance businesses providing healthy food options
6. The CDFI Bond Guarantee Program,²⁴ by issuing bonds to support CDFIs that make investments for eligible community or economic development purposes

Small Business Administration (SBA) Programs

SBA is bringing more community banks, including MDI and CDFI banks, and other lenders back to SBA lending. The expansion ensures that small businesses have more points of access to the capital they need. In FY 2012, the SBA supported more than \$30 billion in lending, for a second consecutive year, to more than 47,000 companies. Today, commercial lending markets continue to improve and the economy is growing stronger. However, gaps remain for smaller dollar loans and loans to underserved communities. To help fill these gaps, the SBA has streamlined its programs and opened them up to more lenders.

¹⁸ [http://www.cdfifund.gov/what we do/overview.asp](http://www.cdfifund.gov/what%20we%20do/overview.asp)

¹⁹ [http://www.cdfifund.gov/what we do/programs id.asp?programID=7](http://www.cdfifund.gov/what%20we%20do/programs_id.asp?programID=7)

²⁰ [http://www.cdfifund.gov/what we do/programs id.asp?programID=5](http://www.cdfifund.gov/what%20we%20do/programs_id.asp?programID=5)

²¹ [http://www.cdfifund.gov/what we do/programs id.asp?programID=1#](http://www.cdfifund.gov/what%20we%20do/programs_id.asp?programID=1#)

²² [http://www.cdfifund.gov/what we do/programs id.asp?programID=3](http://www.cdfifund.gov/what%20we%20do/programs_id.asp?programID=3)

²³ [http://www.cdfifund.gov/news_events/CDFI-2011-18-CDFI-Fund-Announces-\\$25-Million-in-Healthy-Food-Financing-Initiative-Awards.asp](http://www.cdfifund.gov/news_events/CDFI-2011-18-CDFI-Fund-Announces-$25-Million-in-Healthy-Food-Financing-Initiative-Awards.asp)

²⁴ [http://www.cdfifund.gov/what we do/programs id.asp?programID=14](http://www.cdfifund.gov/what_we_do/programs_id.asp?programID=14)

For example, the SBA revamped its Small Loan Advantage²⁵ program, the key initiative aimed at expanding access to its 7(a) product for loans under \$350,000, by eliminating pages of paperwork that lenders and borrowers previously had to review and fill out. In addition, this new platform makes it easier to process low-dollar 7(a) loans by expanding the pool of lenders to include entities outside of SBA's Preferred Lender²⁶ program. These changes have resulted in a more than 140 percent increase in Small Loan Advantage loans and an over 200 percent increase in the number of lenders using the program.

The SBA also revamped its CAP Lines²⁷ program, which is designed to help small businesses meet their short-term and cyclical working capital needs. The program is now experiencing loan volumes up over 200 percent by dollar volume and 300 percent by number.

And, the Agency continues to implement changes to its Community Advantage²⁸ program, which focuses on expanding access to capital for small businesses and entrepreneurs in underserved communities, and they have received excellent feedback from lenders and borrowers on the proposed enhancements.

SBA is committed to expanding access to capital for small businesses in underserved areas through the *Small Loan Advantage and Community Advantage* programs.

Small Loan Advantage is structured to encourage existing SBA lenders to make lower-dollar loans, which often benefit businesses in underserved markets.

- **Maximum Loan Size:** \$350,000
- **Guarantee:** 85 percent for loans up to \$150,000 and 75 percent for those greater than \$150,000.
- **Approval Times:** Most Small Loan Advantage loans will be approved in a matter of minutes through electronic submission (e-Tran). Non-delegated Small Loan Advantage loans will be approved within 5 to 10 days.
- **Paperwork:** Small Loan Advantage features a two-page application for borrowers after the lender has decided to apply for an SBA guaranty for the proposed loan. The lender completes a credit memo and may use its own loan note.
- **Lender Requirements:** Small Loan Advantage is open to all financial institutions with an executed loan guaranty agreement with the SBA (currently over 7,500 lenders across the nation).



SBA's Jeanne Hulit and USDA's Mark Brodziski discuss agency programs

²⁵ <http://www.sba.gov/content/small-loan-advantage>
²⁶ <http://www.sba.gov/content/preferred-lenders-program-plp>
²⁷ <http://www.sba.gov/content/caplines>
²⁸ <http://www.sba.gov/content/community-advantage>

Community Advantage is a pilot initiative aimed at increasing the number of SBA 7(a) lenders who reach underserved communities, targeting community-based, mission-focused financial institutions which were previously not able to offer SBA loans.

- **Maximum Loan Size:** \$250,000
- **Guarantee:** 85 percent for loans up to \$150,000 and 75 percent for those greater than \$150,000.
- **Approval Times:** Most *Community Advantage* loans will be approved within 5 to 10 days.
- **Paperwork:** *Community Advantage* features streamlined paperwork, with a two-page application for borrowers.
- **Lender Requirements:** *Community Advantage* is open to mission-focused lenders, including Community Development Financial Institutions, SBA's Certified Development Companies and SBA's nonprofit microlending intermediaries. *Community Advantage* lenders will be expected to maintain at least 60 percent of their SBA loan portfolio in underserved markets.
- *Community Advantage* leverages the experience these institutions already have in lending in economically-challenged markets, along with their management and technical assistance expertise to help make their borrowers successful.

United States Department Of Agriculture (USDA) Programs

MDI and CDFI banks that reach into rural communities can benefit from USDA lending-related programs. USDA Rural Development²⁹ has directly invested or guaranteed more than \$131 billion over the last four years in broadband, businesses, housing, safe water, community facilities and more. These activities have benefited not only local communities it serves, but the overall economy as well.

Rural markets benefit most from initiatives that integrate local institutions and businesses, those that have intimate knowledge of local needs, with State and Federal agencies. The presence of USDA field offices³⁰ in every state helps to serve the specific needs of local communities. *USDA Rural Development* staff is able to identify a wide range of community and economic development resources for local elected officials, business owners, families, farmers and ranchers, schools, nonprofits, cooperatives and tribes. Community and minority banks and rural small businesses are encouraged to contact their nearest *USDA Rural Development* office for information about available assistance.

USDA Rural Development assistance includes direct and guaranteed loans, grants, technical assistance, and other payments. They provide technical assistance to lenders, borrowers and other beneficiaries. USDA's support programs can also help leverage private sector financing.

Through *USDA Rural Development's* business and cooperative loan, grant, and technical assistance programs, the agency has helped thousands of rural small business owners and agricultural producers improve their enterprises, including those related to renewable energy. Beyond direct assistance to these business owners and producers, financial support from USDA also creates lasting economic development opportunities in the rural communities where the projects are located. Business and cooperative funding created or saved over 52,000 rural jobs in 2012.

The *USDA Rural Development* housing program ensures that rural families have access to safe, well-built, affordable homes. For example, USDA's Single Family Housing Direct Loan

²⁹ <http://www.rurdev.usda.gov/Home.html>

³⁰ <http://www.rurdev.usda.gov/StateOfficeAddresses.html>.

Program³¹ provides homeownership opportunities to low- and very-low-income rural residents. In fact during 2012, more than 153,000 families, with limited- to moderate-incomes, purchased homes utilizing USDA programs. These programs also helped about 7,000 rural individuals or families repair their existing homes under the home repair loan and grant program.³² And, more than 400,000 low- and very low-income people were able to live in USDA financed Multi-family Housing Program³³ units, thanks to rental assistance.

Programs of interest to MDI and CDFI Banks include both Business and Cooperative Loan Assistance and Housing and Community Facilities Loan Assistance:³⁴

Business and Cooperative Loan Assistance

- Business and Industry Guaranteed Loan (B&I) Program
- Intermediary Relending Program (IRP)
- Bio refinery Assistance Program/Loan Guarantees (Section 9003)
- Rural Energy for America Program Guaranteed Loan Program (REAP) (Section 9007)
- Rural Economic Development Loan and Grant (REDLG)
- Rural Business Investment Program (RBIP)

Housing and Community Facilities Loan Assistance

- Rural Housing Guaranteed Loan
- Rural Housing Direct Loan
- Rural Repair and Rehabilitation Loans
- Mutual Self-Help Loans
- Rural Housing Site Loans
- Farm Labor Housing Loans and Grants
- Rural Rental Housing
- Guaranteed Rental Housing
- Community Facilities Loan Program

The Export-Import Bank Of The United States (Ex-Im Bank) Programs

MDI and CDFI Bank lending to local small businesses that export products can be enhanced through a variety of programs offered through the Export-Import Bank of the United States.³⁵ Ex-Im Bank is the official export credit agency of the United States. Ex-Im Bank's mission is to assist in financing the export of U.S. goods and services to international markets. Ex-Im Bank enables U.S. companies — large and small — to turn export opportunities into real sales that help maintain and create U.S. jobs and contribute to a stronger national economy.

Ex-Im Bank does not compete with private sector lenders but provides export financing products that fill gaps in trade financing. It assumes credit and country risks that the private sector is unable or unwilling to accept. Ex-Im Bank provides working capital guarantees (pre-export financing); export credit insurance; and loan guarantees and direct loans (buyer financing). On average, more than 85 percent of transactions directly benefit U.S. small businesses. Programs of interest to MDI and CDFI banks include among others: *U.S. Global Solutions, Working Capital Guarantee, and Global Credit Express.*

³¹ http://www.rurdev.usda.gov/hsf_sfh.html

³² [http://www.rurdev.usda.gov/HAD-RR Loans Grants.html](http://www.rurdev.usda.gov/HAD-RR%20Loans%20Grants.html)

³³ [http://www.rurdev.usda.gov/HMF MFH.html](http://www.rurdev.usda.gov/HMF_MFH.html)

³⁴ http://www.rurdev.usda.gov/rd_loans.html

³⁵ <http://www.exim.gov/>



Don Graves, Executive Director of the President's Council on Jobs and Competitiveness and Treasury Deputy Assistant Secretary with FHA Commissioner and HUD Assistant Secretary Carol Galante

One-stop shopping for Federal export financing and guarantee programs will soon be within reach for community banks and other stakeholders. Ex-Im Bank will be a participant in U.S. Global Business Solutions,³⁶ an interagency initiative to expand the reach of federal export assistance and add 50,000 small businesses to the nation's exporter base by 2017. Under the new, multi-agency initiative, several federal agencies collaborated to combine their trade finance programs and export marketing services into a one-stop platform. *U.S. Global Business Solutions*³⁷ is being piloted for six months, beginning in June 2013. A group of diverse lenders will test the program throughout the country. Together, six federal agencies are behind this initiative, including SBA, Ex-Im Bank, Department of Commerce's Commercial Service, U.S. Trade and Development Agency, U.S. Department of Agriculture's Foreign Agriculture Service and Overseas Private Investment Corporation. A full-scale rollout of the pilot is expected in early 2014. For more information on the U.S. Global Business Solutions initiative, contact the SBA representative in your local U.S. Export Assistance Center.

Among other programs available through financial institutions, Ex-Im Bank's Working Capital Guarantee Program³⁸ encourages commercial lenders to make working capital loans by providing them with a 90 percent loan guarantee, which decreases their risk. Ex-Im Bank Delegated Authority Lenders - lending partners with whom Ex-Im Bank has agreements - can expedite their loan process by evaluating eligibility against Ex-Im Bank requirements quickly.

Also demonstrating Ex-Im Bank's ongoing commitment to small business exporters is the Global Credit Express Program,³⁹ specially designed to deliver short-term working capital loans directly to creditworthy small business exporters. Through this program, exporters may be eligible for a 6- or 12-month revolving line of credit of up to \$500,000. Global Credit Express adds liquidity to the U.S. small business export market by financing the business of exporting rather than specific export transactions. This is a pilot program currently offered through a select number of Originating Financial Institutions nationwide.

Federal Housing Administration (FHA) Programs

FHA's⁴⁰ response to the housing crisis and its role in the current state of housing recovery, according to Moody's Analytics, prevented home prices from falling an additional 25 percent. And, FHA has continued to service its historic target population, insuring 1.2 million single

36 <http://www.sba.gov/community/blogs/launch-us-global-business-solutions-pilot-us-government-solutions-small-business-exp>

37 <http://www.sba.gov/community/blogs/launch-us-global-business-solutions-pilot-us-government-solutions-small-business-exp>

38 <http://www.exim.gov/products/workingcapital/>

39 <http://www.exim.gov/smallbusiness/smallbusprod/Global-Credit-Express.cfm>

40 http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/fhahistory

family mortgages worth \$213 billion in 2012; 79 percent of which were for first-time buyers and accounting for 50 percent of home purchase mortgages for African-American borrowers, and nearly as many for Hispanic and Latino borrowers.

As outlined during this conference session, several FHA priorities of particular interest to CDFI banks and MDIs include:

- ensuring continued access for otherwise creditworthy people without perfect credit, and those with higher LTV lending, by *integrating housing counseling* into all programs
- *managing distressed assets* or legacy assets in a positive way for the customer and the community
- *improving rental financing options*

Integrated Housing Counseling. HUD's new Office of Housing Counseling (OHC)⁴¹ has several initiatives to ensure borrowers know their rights and have access to the remedies that will allow them to stay in their homes. In addition, FHA and OHC are exploring ways to further embed housing counseling into the home purchase process, as well as continuing efforts around loss mitigation. The OHC is working with FHA to develop a pilot program to embed Housing Counseling in FHA lending programs to ensure that borrowers are better prepared for homeownership.

Managing Distressed Assets. Managing distressed assets before they get to foreclosure is another priority. In recent months, FHA unveiled its Distressed Asset Stabilization Program⁴³ (DASP), another Owned Real Estate (ORE) alternative that improves Fund performance. The pilot program allows pools of mortgages headed for foreclosure to be sold to qualified bidders and charges them with helping to bring the loan out of default. In many cases, this is a less expensive alternative to foreclosure and sale as Owned Real Estate (ORE). Under the program, FHA-insured loans are sold competitively at a market-determined price generally below the outstanding principal balance. Once the loan is purchased, foreclosure is delayed for a minimum of six additional months, during which time the new servicer can work with the borrower to find an affordable solution to avoid foreclosure. These loans are purchased at market rate, which is generally well below the outstanding principal balance, giving the investor the incentive to take additional steps to help the borrower avoid foreclosure, including modifications that may include reduced principal balances.

Improving rental financing options. FHA is also proposing to improve rental options as demonstrated through a HUD pilot program for guaranteed financing of small buildings. Under the pilot, HUD would partner with mission-driven lenders, such as CDFIs, to make guaranteed loans on small multifamily rental buildings on a 50/50 risk share basis with HUD. According to the 2010 *American Community Survey*, nearly one-third of renters live in 5 to 49 unit buildings. These buildings also tend to have lower median rents than larger properties: \$400 per month for 5 to 49 unit properties as compared to \$549 per month for properties with 50 or more units. Because they are expensive to finance, particularly in this environment, these properties are at risk of divestment.

In line with this effort, HUD is proposing legislative changes⁴³ to the Section 542(b) Risk Share and Small Buildings program that would allow the Department to explore more flexibility with the program to work with experienced affordable housing lenders and make Risk Share loans on small properties. These proposed changes would allow HUD to enter into Risk Share agreements with qualified lenders – such as well-capitalized Housing Finance Agencies or Community Development Financial Institutions – that have demonstrated experience making loans to support affordable housing and neighborhood stabilization, to make refinance, acquisition or rehab loans available on small properties.

⁴¹ http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/hcc

⁴² http://portal.hud.gov/hudportal/HUD?src=/press/press_releases_media_advisories/2013/HUDNo.13-066

⁴³ <http://portal.hud.gov/hudportal/documents/huddoc?id=051613HFSCWTestFinal.pdf>

MDIs by the Numbers

Presenter

Richard A. Brown

Chief Economist, Federal Deposit Insurance Corporation

Overview

The FDIC is conducting a research-based study of Minority Depository Institutions (MDIs) to better understand the role they play in the financial system and the post-crisis challenges they face. The FDIC's Chief Economist gave an overview of the preliminary research findings regarding MDI banks over the 2001-2012 timeframe. The study is a companion to the FDIC's 2012 Community Banking Study and used much the same methodology, breaking institutions into groups of "Community Banks" and "Non-Community Banks."⁴⁴ The study focused on structural changes in MDIs; their geography; the financial performance of MDIs over time; capital formation; and the social impact of these institutions. The FDIC will be publishing the final study in the fourth quarter of 2013.

General Discussion

At year-end 2012, some 181 FDIC-insured institutions were listed as MDIs. Of these, 159 can be considered community banks according to the FDIC's research definition, while the remaining 22 are noncommunity banks. Also in 2012, some 83 FDIC-insured institutions were listed as CDFIs by the U.S. Department of Treasury, all but three of which were community banks. At the intersection of these groups were 40 institutions listed simultaneously as both MDIs and CDFIs.

Banks and thrifts listed as MDIs tend to be somewhat larger than CDFIs, averaging almost \$1 billion in asset size, or about three times the average size of the CDFIs. Collectively, the 224 FDIC-insured institutions listed as either MDIs or CDFIs hold just under \$200 billion in assets and operate a total of 2,182 banking offices. While these figures represent very small shares of banking industry totals, our study will show that these institutions have a disproportionate impact on the communities they are designed to serve.

MDIs tend to be younger than other institutions. The median age of an MDI charter in 2012 was 26 years, while almost three quarters of MDIs have been in operation for 40 years or less. By contrast, the median ages of non-MDI community and noncommunity banks were 89 and 33 years, respectively. Most MDIs are organized to serve the financial needs of a specific minority group. The largest group by number – with 93 banks holding \$74.2 billion in assets – serves the Asian or Pacific Islander community. The largest group by assets – with 37 institutions holding \$96.4 billion in assets – serves the Hispanic communities of Puerto Rico and the continental U.S.

An informal review of MDI websites indicates that most MDIs offer a range of web and mobile services to their customers, with more than 90 percent advertising online banking and more than 80 percent offering online bill pay. About 80 percent of larger MDIs also offer business cash management services. Smaller MDIs (with assets less than \$250 million) advertise fewer web and mobile services, although about 60 percent offer business cash management and 37 percent offer remote deposit capture for business.

⁴⁴ The FDIC's research definition of a community bank is outlined in the FDIC Community Banking Study at <http://www.fdic.gov/regulations/resources/cbi/report/CBSI-1.pdf>. Rather than relying on a size threshold, the new FDIC definition takes a closer look at the business and office structure of the institution and the extent to which it is focused on traditional lending and deposit gathering activities, as well as its geographic scope of operations.

Net loans and leases comprise 66 percent of MDI assets, compared to 61 percent at community banks and 50 percent at noncommunity banks that are not MDIs. The largest lending specialty category for MDIs is made up of Commercial Real Estate (CRE) specialists. Some 63 percent of MDIs in 2012 were CRE lending specialists, compared to 21 percent of non-MDI community banks. Importantly, however, relatively few of these MDI CRE specialists achieved that designation by holding more than 10 percent of their total assets in the relatively high-risk construction and development (C&D) segment of CRE loans.

As a share of all FDIC-insured institutions, MDIs grew from 1.7 percent in 2001 to 2.6 percent in 2008 before leveling off. MDIs made up an even smaller 1.2 percent share of industry assets in 2012, down from 1.5 percent at year-end 2006. And MDIs overall operate almost 1,800 banking offices; here, too, their share is just 1.9 percent of the industry total.

Growth in the number of MDI charters since 2001 has been driven mostly by re-designations to MDI status. Forty-four new MDIs were chartered during our study period, while 51 were acquired in voluntary mergers, and 31 failed. Between 2001 and 2012, 75 charters were re-designated as MDIs, while 18 lost MDI status, for a net gain of 57. Asian/Pacific Islander MDIs have increased by over one-third in number since 2001, and comprised half of all MDIs operating in 2012.

Importantly, most of the assets of merged and failed MDIs have been acquired by other MDIs. In all, almost two-thirds of the assets of merged MDIs and 87 percent of the assets of failed MDIs stayed with MDI acquirers, helping to ensure that those resources remain at the disposal of minority communities. These acquisitions of failed and merged MDIs by other MDIs helped to keep over \$33 billion in total assets under the control of MDI institutions and at work in their local communities.

MDIs tend to congregate in metropolitan areas, and to cluster geographically according to minority status. Eighty-eight percent of MDIs are headquartered in metropolitan areas, including some of the nation's largest cities, led by Los Angeles, New York, Miami, Chicago, Atlanta, and Houston. Hispanic MDIs tend to have the largest branch networks, operating over 15 offices on average and 24 including Puerto Rico. The extensive branch structures of Hispanic MDIs compare to an average of just over 7 offices for Asian/Pacific Islander MDIs and less than 5 for African-American MDIs.

Conclusion

Many MDIs underperform in terms of standard industry measures of financial performance such as pre-tax Return on Assets (ROA). MDIs perform much like community banks in certain respects, but many of them report higher expense ratios. Average overhead expenses vary widely across minority status groups. MDI efficiency ratios in many cases exceed industry averages. The smallest MDIs, in particular, stand out in terms of elevated efficiency ratios.

Although a small segment of the banking industry – and despite their earnings challenges – MDIs have significant impact in their communities. The study calculated the percent of population within a bank's estimated service area that resides in a low- or moderate-income (LMI) census tract. The median MDI served 2.7 times the LMI population reached by the median non-MDI community bank, and more than 1.7 times that of non-MDI non-community banks. MDIs originated a substantially greater share of their residential mortgages to minority borrowers in their respective communities. For example, in 2011, the median African-American MDI made 67 percent of its mortgage loans to African-American borrowers; median Hispanic MDIs made 65 percent to Hispanic borrowers; and median Asian-American MDIs made 57 percent of their mortgage loans to Asian-Americans. These figures stand in stark contrast to the median level of mortgage loans made to each of these groups by non-MDI lenders, which for each category were reported to be less than one percent.

Industry Overview

Panel Moderator

Michael Grant President, National Bankers Association, Washington, DC

Panelists

Arturo Carrion Executive Vice President, Puerto Rico Bankers Association, San Juan, PR

Ross Hill CEO, Bank 2, Oklahoma City, OK

Jeannine Jacokes Chief Executive, Community Development Bankers Association

Alan Thian President, National Chinese-American Bankers Association and President & CEO, Royal Business Bank, Los Angeles, CA

Rebeca Romero Rainey Chair, ICBA Minority Bank Council and Board Chair & CEO, Centinel Bank of Taos, Taos, NM

Overview

Minority and CDFI trade groups and CEOs, representative of banks serving African-American, Asian-American, Latino-American, and Native-American communities, explored several themes, including, “How we are the same, how we are different, and how we can work together.” They discussed how they serve different types of minority communities and their views for the future.

General Discussion

The leaders of trade organizations that represent African-American, Asian-American, Hispanic-American, Native-American, Puerto Rico and Community Development banks spoke of their common purpose: permitting members to work together in their respective groups to share information with each other, the public, regulators and legislators. Citing the earlier FDIC presentation, “*MDIs by the Numbers*,” participants stressed that there is greater strength in numbers. Trade groups would have more impact if they worked together toward common goals. Many share the same concerns as other community banks. And they all share concerns unique to serving minority communities.

The panel expressed concerns regarding the financial and social impact of proposed rulemakings, including regulatory relief, mortgage, capital, housing and small business proposals. Some suggested that government should be more proactive in seeking their input, noting that although revisions to some of the proposals were positive steps, more could be done. They outlined some of their efforts to influence these changes through meetings on the Hill, with regulators and at public forums.

Panelists and members of the audience noted the strong spirit of inclusion flowing through the conference itself. As the moderator noted, “I have never seen such inclusion as I have with Bob Mooney’s efforts in bringing together this conference.” There was a basic agreement to foster cooperation and collaboration among these different representative groups of MDIs, to bring them under the same umbrella.

Conclusion

As one participant noted, the work and influence of each alone is impressive, however, working together they would be unstoppable. The audience responded positively to the panelists’ commitments and promises for follow-up telephone calls and meetings toward that end.

The CEO Panel: Challenges and Opportunities

Panel Moderator	
Doyle Mitchell	President & CEO, Industrial Bank, Washington DC and Chairman, National Bankers Association
Panelists	
Guillermo Diaz-Rousselot	President, COO & Acting CEO, Continental National Bank of Miami, Miami, FL
Min Kim	President and CEO, Open Bank, Los Angeles, CA
Preston D. Pinkett, III	President and CEO, City National Bank, Newark, NJ
Alden J. McDonald	Founding President & CEO, Liberty Bank & Trust Co, New Orleans, LA
Kim Saunders	President and CEO, Mechanics & Farmers Bank, Durham, NC
Darrin Williams	CEO, Southern Bancorp, Inc., Arkadelphia, AR

Overview

MDI and CDFI Bank CEOs discussed the challenges and opportunities they face serving different niche markets, including, among others: challenges to improve overall performance; opportunities for tapping into the power of partnerships and greater collaboration with others, and recommendations on how to help them maintain their special status and serve their communities.

General Discussion

Session discussions centered on the positive impact of MDI and CDFI banks, their challenges and the future. The panel presented perspectives from a cross section of successful chief executives with broad financial, business and governmental experience. Tenure in the CEO position at their banks ranged from 40 days to nearly 40 years. And, they represented a cross-section of minority and CDFI banks from across the country, ranging in asset size from \$200 million to \$1 billion, and serving their communities from 8 years to more than 100 years.

First, the CEOs surmised what might happen if they were no longer there to serve their neighborhoods. They posited a few scenarios. Without MDI and CDFI banks, their neighborhoods would be abandoned to high cost service providers, some said. Certain ethnic communities would be ignored by more traditional financial institutions, possibly due to perceived language and cultural barriers. Financial education would be lacking. Predatory lending could increase and customers might not be treated as fairly. Charter schools and churches would lose significant financial support, impacting young and old alike and loosening the social fabric of their communities. Customers would be less likely to achieve the “American Dream,” buy homes and start businesses.



Min Kim with Guillermo Diaz-Rousselot and Preston D. Pinkett III on the CEO panel

If others were to step in to replace an MDI or CDFI bank, they suggested, much more discretionary income, for already financially challenged customers, would disappear in fees paid to higher cost lenders. For this reason, some noted that it is not uncommon for representatives of areas lacking mainstream banking services to invite their banks to open branches.

CEOs also responded to the proverbial question, “What keeps you up at night?” and explored critical issues now facing their banks. Residential lenders encouraged regulators to carefully craft and implement QM, QRM, Capital and other pending rules. They noted that, in their communities, they play a vital role in home financing, including rental housing. Minority and CDFI banks have considerable expertise serving low- and moderate-income families through the use of flexible programs and credit enhancements to lend in a safe and sound manner. They expressed concerns that proposed rules could have unintended consequences, limiting the use of these community development and affordable housing lending tools. And, they referred regulators to their public comment letters, recommending specific changes to the proposed rules.

CEOs of institutions with relatively long histories noted that, for all or almost all of their years, they were profitable, despite financial crises; and, they strive to keep it that way. However, the business is challenged in ways not seen before. Earnings are harder to generate, interest rate spreads are lower, and competition is fierce. They stressed that capital – the ability to raise it, generate returns and pay back – is a primary focus. Unregulated institutions and larger financial institutions provide stiff competition on price, most agreed, so it becomes harder to find good loan opportunities. The typical investor, nonetheless, expects reasonable returns within certain timeframes. And, the more patient, social investor often expects to see more community development lending.

Conclusion

The CEOs were forward-looking and believe their local economy will improve, albeit slowly. America is increasingly diverse, and they know how to serve diverse communities. But, not all minority banks or minority communities are alike. There are differences. A few explained that their particular business model involves specialized lending in areas not served by mid-size and larger banks (e.g., car washes, small mom and pop stores, hospitals, churches, etc.), so in this respect they can generate a reasonable return. For others, including some from areas hardest hit by the financial crisis, they noted that the business model is changing and MDIs need to be on the “design side, not the behind side.”

Leaders of the MDI industry, the CEOs said, need to educate regulators on the impact of rules and work with them on examination approaches that take into account their unique role. They cited regulatory red tape with applications, and critical examination report comments without recognizing improvements the bank has made. They expressed the need to influence the design of Federal programs that provide tax credits, financing guarantees and other tools, to become more useful for raising capital and leveraging lending. They looked forward to the conference roundtables to discuss ways to collaborate with each other as an industry, to achieve scale. And, they confirmed their determination to develop a market strategy for survival – to become the niche bank for tomorrow.



Alden McDonald, Kim Saunders and
Darrin Williams on the CEO panel

The Investor Perspective

Panel Moderator

Saurabh Narain CEO, National Community Investment Fund (NCIF), Chicago, IL

Panelists

Amy Brusiloff Senior Vice President, Bank of America, New York, NY

Peter Wirth EVP and Co-Head of Investment Banking, KBW

Overview

The panel discussed perspectives of socially responsible investors, private equity and the capital markets on how to attract capital, debt, deposits and grants to CDFI and MDI banks. Panelists explored: how banks can prepare themselves to attract these sources of funding; changes to business models to create scale and efficiencies thereby attracting investors; and how to generate interest by communicating the social performance impact that separates Minority and CDFI Banks from others.

General Discussion

Socially responsible investors support mission oriented banks in a variety of ways, including liquidity deposits, equity capital investments, purchase or sale of loan portfolios, or engaging in financial literacy partnerships. The capital markets are currently open. Traditional merger and acquisition activity is below historic levels due to the substantial consolidation of the banking industry that has occurred since 2000. While M&A activity is lower so far this year, it will probably start to pick up again. Strong 2013 equity performance has supported healthy capital markets. Equity capital market activity will continue to be driven by acquisition finance, monetization by private equity and for TARP repayment by those institutions required to raise equity. Private investors have purchased TARP through the Treasury auction process. Debt and equity capital are available for smaller banks (\$10 billion and under); common stock is the main source of capital for these banks.

Bank earnings will continue to be challenged due to net interest margin compression. One panel member suggested that the growth in earnings per share is estimated to be 7 percent in 2013 and 5 percent in 2014. Loan growth is expected to be moderate due to low rates and a very competitive environment. To maintain or boost earnings, industry research suggests that banks will need to shift to focus on expense initiatives.

MDI and CDFI CEOs can prepare themselves to attract funding in this climate by showing effective leadership, including knowing the goals of their constituencies (shareholders, board, regulators, management); knowing where their sources of capital are (institutional investors, retail investors, friends and family, Board of Directors, private equity); knowing what their investors are looking for (capital appreciation, dividend income, time horizon, social impact); and knowing and communicating their stories. On the financial side, the value proposition includes earnings growth, asset growth, valuation, and appropriate exits – while value on the social return side includes year-over-year change in the impact of the banks on their communities.

Strengthening balance sheets is essential for MDI and CDFI banks to attract investors. It is important to keep capital up, as the implications for falling below “well capitalized” are dividend restrictions, management compensation and share repurchase limitations. Scale is also important. For MDI and CDFI banks, the trend toward a little bigger is better, in part due to more diverse sources of earnings. MDIs and CDFIs may need to modify their business model by working collaboratively to achieve scale. Possible models could include independent shared service platforms or mutually owned shared service platforms for back office and

capital raising, a multi-bank holding company or “Franchise Model,” or full bank consolidation. Other ways to achieve scale might include developing a common liquidity vehicle or fund to hold investments. The CDFI Fund’s New Markets Tax Credit (NMTC) program, the CDFI Fund Bond Guarantee Program, or Small Business Administration Small Business Investment Company (SBIC) structures are possible options for supporting increases in scale.

MDIs and CDFIs can generate additional investor interest by communicating the social performance impact that highlights their mission. To tell their story, successful MDIs and CDFIs will be able to communicate their impact on low- or moderate-income (LMI) communities. The National Community Investment Fund (NCIF) is a socially responsible private equity fund established in 1996.⁴⁵ NCIF developed social performance metrics which show the success of MDI and CDFI banks that consistently operate in LMI communities. For example, the median Development Lending Intensity of banks participating in the NCIF’s social performance metrics project, as measured by home-lending activity (using Home Mortgage Disclosure Act, or HMDA data) in these communities, has remained between 40 and 55 percent over time. This is three times the lending of all bank peers in LMI communities. The median Development Deposit Intensity of NCIF banks, as measured by deposits in their branches located in LMI neighborhoods, has remained between 50 and 70 percent. This is three to four times that of all bank peers. Together, these indicators show that MDI and CDFI banks have consistently outperformed all banks in home lending and branch presence in LMI communities over a 15 year period. Moreover, apart from lending, these institutions are often the only source of non-predatory financial services in LMI areas.

Conclusion

MDI and CDFI banks will be successful in raising capital if they exhibit strong earnings potential through relatively high margins. Measured growth, though not at the expense of profitability, is vital to making these banks attractive to new investors. Managing credit costs and quality will improve profitability and will increase access to the capital markets. MDIs and CDFI banks might consider partnering with a local advisor who has the same interest in serving the community long-term. CEOs must know and communicate effectively what creates value (predictable earnings growth, balance sheet integrity, eventual prospect of paying a dividend, market share, impact on the community).

⁴⁵ NCIF invests on- and off-balance sheet private capital in mission-oriented banks, most of which are CDFI banks or MDIs. The fund has \$195 million in assets including \$173 million of New Markets Tax Credits through the Department of Treasury’s CDFI Fund. NCIF collaborates with banks investing in Tier 1 capital, NMTC and other complementary products.

Collaboration with Other Financial Institutions

Panel Moderator

Preston D. Pinkett, III President & CEO, City National Bank, Newark and New York City

Panelists

Michael Brathwaite Vice President, Urban Markets Group, Morgan Stanley, New York, NY

Dominik Mjartan Senior Vice President, Southern Bancorp, Arkadelphia, AR

Neill S. Wright President and CEO, First Tuskegee Bank, AL

Overview

First, roundtable participants discussed ways to foster partnerships between MDI and CDFI banks and with other banks (large and small) and financial partners for equity investment, loan participations, asset purchases, and other activities. Next, they discussed ways to share the effort and reduce the costs of operations, for example, in technology, back office operations, compliance management, product development and delivery, or marketing. Then, they discussed the next steps to building a consensus and commitment to develop possible networks and structures to achieve these goals.

General Discussion

MDIs and CDFIs are ideal candidates to collaborate on business strategies, since they mostly operate in different markets and do not directly compete with each other. The benefits of collaboration include the ability to attract additional investors due to scale, and the ability to reduce operational costs by creating efficiencies. MDIs and CDFIs can come together with each other or with other financial institutions to jointly develop products and services; create loan participations to share risk and diversify their portfolios; share expertise on compliance issues or specialized lending such as Small Business Administration (SBA), Federal Housing Administration (FHA) or U.S. Export Import Bank lending; create technology platforms or use their purchasing power to modify existing technology platforms to meet their unique needs; or develop shared mechanisms to raise capital.

Roundtable participants discussed the challenges of moving to a shared service platform. Many bankers in the room had experience with mergers and acquisitions and the resulting lengthy and difficult consolidation of back room operations. One banker indicated that even within the holding company, independent banks found it difficult to build a case for sharing compliance, audit, deposit operations, and loan operations. But another banker described his institution's successful 20-year consolidation with 13 different markets in two states. This bank was able to tie the incentive for consolidation – cost savings and efficiency – to the CEO's bonus. While there may have been operational inconveniences, in the end the bank presidents came around to see how productive it can be.

Despite the perceived difficulties of moving to a single information technology core processing platform, participants acknowledged that MDIs and CDFIs could reach out to smaller core processing vendors to express their common operational needs in an attempt to garner attention to their specific needs. This approach, leveraging the buying power of multiple MDIs and CDFIs to influence the development of IT platforms to meet the unique needs of the mission banking sector, generated significant interest among participants. Other alternatives participants might consider would be to come together to separately capitalize an entity to provide backroom services. For example, MDIs and CDFIs could create a multi-bank Community Development Corporation. Both the Federal Reserve and the Office of the Comptroller of the Currency permit these entities, subject to a variety of regulations depending on ownership structure,

through their application processes. Another option would be to bring in venture capital funding to invest in a multi-bank joint venture that is governed and managed by the banks with a stake in the entity.

Participants suggested that another opportunity for collaboration would be to work together to “balance our balance sheets.” Many MDIs and CDFIs specialize in a particular type of lending in their communities. For example, mission banks have concentration risk both in terms of geography (serving a small neighborhood within a city) and by underwriting specialized loans (such as church lending, SBA lending, FHA lending). Mission banks could collaborate to separate out the customer piece and assets from the portfolio management. Banks could exchange different pieces of earning assets to balance out the balance sheet.

Participants also expressed a desire to collaborate with larger financial institutions and to develop partnerships beyond simple Community Reinvestment Act relationships. The Urban Markets Group at Morgan Stanley indicated that there are opportunities to collaborate on income generation. Another possibility would be to partner with Industrial Loan Companies (ILCs). MDIs and CDFIs could consider collaborating among themselves on FHA or SBA platforms. Banks also could collaborate with local universities to create technical assistance incubators.

Conclusion

The unique mission focus of MDIs and CDFIs—banks that interact deeply within their communities with a high personal touch—creates a common purpose for collaboration. Benefits include increasing scale to attract investors and reducing costs. MDIs and CDFIs agreed that multiple approaches to collaboration will be needed, with a high degree of flexibility so that banks can still maintain control of their business models to enable them to continue to best serve their communities. Mission banks also recognize the need to look beyond their current models to capitalize on new markets that may be available through greater collaboration. For example, many minority populations are growing faster outside traditional minority centers where MDIs are located. There are multiple vehicles that can be used to discuss next steps, including the National Bankers Association, the Minority Bank Council of the Independent Community Bankers of America, Community Development Bankers Association, other trade groups, or the National Community Investment Fund. The participants committed to collaborate based on need. The next steps are to identify needs, create urgency, make a case, and invite others to participate.



Preston D. Pinkett III leads a roundtable discussion on how MDIs and CDFIs can collaborate with other financial institutions

Collaboration and the Supervisory Process

Panel Co-Moderators	
Doreen R. Eberley	Director, Division of Risk Management Supervision, FDIC
Mark Pearce	Director, Division of Depositor and Consumer Protection, FDIC
Panelists	
Maryann F. Hunter	Deputy Director, Division of Banking Supervision and Regulation, Federal Reserve Board of Governors
Jennifer C. Kelly	Senior Deputy Comptroller for Midsize and Community Bank Supervision, OCC
Arthur W. Lindo	Senior Associate Director, Division of Banking Supervision and Regulation, Federal Reserve Board of Governors

Overview

Senior regulators provided updates on examination, rulemaking and guidance issues, and solicited feedback from bankers in the audience. Minority and community development bankers joined the roundtable discussion on a variety of supervisory and regulatory issues, discussing their impact on the challenges and opportunities facing the industry.

General Discussion

Coming out of the recent financial crisis, the financial condition of the industry is improving, although loan demand is still low and banks face challenges from continuing margin squeezes and growing interest rate risk. The slow economic recovery in areas where MDIs are located has affected access to credit and the ability of minority banks to serve their communities. Minority bankers described their difficulties in keeping up with more complex regulations coming out of the crisis, while regulators indicated their concern about banks' increasing use of consultants to address supervisory and regulatory issues. The regulators expressed their desire to improve communications with bankers on regulatory expectations.

Minority bankers indicated the ability to serve their communities is affected by the accelerating pace of rule changes and new regulations, and they are concerned with the unintended consequences of these rules, including the growing uneven playing field between community and large banks. Minority bankers stated that if the regulators are looking for pristine loans, they cannot provide credit or be a lender of last resort to many of their customers. For many of the customers they would turn down, the only source of credit is outside of the banking system. Attracting capital is another concern; some minority bankers may find it difficult to persuade prospective investors that community banks have a bright future.

Some minority bankers are looking for tools to serve the under banked, recent immigrants and customers with low FICO scores or without scores at all. They are looking to be more competitive with check cashers and payday lenders, and are looking for advice from the regulators on how to do this. Many of the bankers work with cash-intensive economies (mom and pop convenience stores, gas stations, churches, dry cleaners, etc.) raising Bank Secrecy Act questions or concerns, and they are looking for ways to comply with rules that enable them to continue to serve these customers. Another common regulatory concern is with commercial real estate or other concentrations, which may force minority bankers into new areas where their bank may not have experience or expertise. Other banker concerns include regulatory red tape on applications and exam reports that they believe strike a critical tone despite improvements the bank has made.

The regulators indicated that recent studies underscore that the community bank model continues to be resilient for those who follow prudent risk management practices. For example, the Federal Reserve Bank of St. Louis recently published a study, *"The Future of Community Banks: Lessons from Banks That Thrived During the Recent Financial Crisis,"*⁴⁶ which found that community banks with strong commitments to maintaining standards of risk control in all economic environments, and business plans that work for their individual markets, have a viable future in community banking. The FDIC's 2012 Community Banking Study⁴⁷ also found that there is not much evidence to suggest that economies of scale are an important source of competitive disadvantage for most community banks or that they will compel significant additional consolidation in the years ahead. One banker suggested that bankers need to come together to develop a platform to make the community bank business model more secure and appealing to investors.

The regulators asked how they can provide more meaningful technical assistance for minority bankers. Bankers expressed an interest in understanding corrective actions and that regulators engage with bankers more during the examination process to reach appropriate solutions. They also suggested that during the pre-examination planning process, examiners delve into the specifics of a new issue before the examination rather than making general conclusions from offsite data. Bankers would like more "black and white" answers to their questions and prefer not to have to wait for examiners to "go up the chain" to get a clear answer.

Conclusion

Regulators and minority bankers agreed to continue to improve communications. The regulators agreed to communicate their expectations to bankers, and the bankers agreed to communicate to regulators how supervisory and regulatory approaches are affecting their banks. Although the perception is that many of the new rules coming out of the crisis will adversely affect smaller community banks, the feedback community banks have provided to regulators has had an impact on rulemaking. For example, regulators have responded to community banker concerns with the recent mortgage and capital rules. The regulators committed to provide the expertise and resources through technical assistance programs to assist community banks as they experience challenging times and possible changes in their business model. The banks that will thrive will be those which can best help their local communities.

⁴⁶ See R. Alton Gilbert, Andrew P. Meyer, and James W. Fuchs, (2012), "The Future of Community Banks: Lessons from Banks That Thrived During the Recent Financial Crisis," *Federal Reserve Bank of St. Louis Review*, March/April 2013 Volume 95, No. 2 pp 115-143, at <http://research.stlouisfed.org/publications/review/article/9833>".

⁴⁷ Refer to "FDIC Community Banking Survey" (December 2012), at <http://fdic.gov/regulations/resources/cbi/study.html>



Jill Sung, Abacus Bank, New York, NY poses a question for the regulators



Jeffrey Cheung, Gateway FSB in San Francisco, and Norman Williams, Illinois Federal Savings and Loan in Chicago, IL

Collaboration with the CDFI Fund

Panel Moderator	
Brian E. Argrett	President & CEO, City First Bank, Washington, DC
Panelists	
Scott Berman	Manager, Legislative and External Affairs, CDFI Fund
Greg Bischak	Manager, Financial Strategies & Research, CDFI Fund
Robert Ibanez	Program Manager, New Markets Tax Credit Program, CDFI Fund
Ruth Jaure	Manager, CDFI & NACA Program, CDFI Fund
Lisa Jones	Manager, CDFI Bond Guarantee Program, CDFI Fund
Robert Mulderig	Manager, Certification & Compliance, CDFI Fund
Mia Sowell	Senior Policy & Program Officer, Bank Enterprise Award Program, CDFI Fund

Overview

Senior CDFI Fund Officials discussed current program, policy and research plans affecting CDFI Banks, answered questions, and solicited comment on New Markets Tax Credits, Bank Enterprise Awards, and other CDFI programs. Among other updates, the CDFI Fund outlined their Capacity Building Initiative to provide training and technical assistance on a variety of topics, and Community Development Bond Guarantee Program interim rules designed to include financing small businesses, senior facilities, daycare centers and multi-housing developments.

General Discussion

The **New Markets Tax Credit (NMTC)** program allows Community Development Entities to raise capital through the sale of tax credits. The funds can be used flexibly for a variety of projects, including manufacturing, charter schools, community facilities, and neighborhood retail. To date, \$36.5 billion in NMTC authority has been issued through ten rounds of funding. In its most recent round, the CDFI Fund allocated \$3.5 billion in NMTC authority to 85 applicants. Of these, ten were first time awardees. There is vigorous competition for awards. The application for FY2013 NMTC awards opens in late July, with proposals due in September. Currently, the program is authorized through FY2013. The President proposed in his FY2014 budget that the program be made permanent.

The **CDFI Bond Guarantee Program** offers long-term capital to CDFIs at low cost. In FY2013, \$500 million in bond authority is available, through \$100 million tranches. CDFIs can participate in a variety of ways – as issuers, as eligible CDFIs with bond loans from the issuer, or as secondary borrowers. CDFI-to-CDFI lending provides an opportunity for smaller CDFIs to participate in the program. On June 11, the CDFI Fund announced the application for potential bond issuers with materials available on the CDFI Fund website (www.cdfifund.gov); the applications are due in mid-July. The program is complicated. The CDFI Fund is offering several workshops and a webcast for potential applicants.

The **CDFI Fund and Native American Communities Assistance Programs** provide financial and technical assistance awards to certified CDFIs. Financial awards may be used for financing capital, loan loss reserves, capital reserves, or development services. The awards, made in the form of equity investment, loans, grants, or deposits, must be matched by non-federal sources on a dollar-per-dollar basis. The program is very competitive, with requests typically three times the amount of funds available.

The awards for the FY2013 funding round will be announced in September, with \$150 million to be disbursed. The application for FY2014 will be released in the fall 2013. The CDFI Fund announced a capacity building program, to provide training and technical assistance for CDFIs who are also MDIs, to address the unique challenges they face. The *Preserving and Expanding CDFI Minority Depository Institutions Series* is expected to roll out in late 2013 or early 2013, and will address a variety of topics, including building leadership capacity, expanding capitalization, managing organizational transformation, enhancing operational performance, and navigating compliance and regulations.

The **Bank Enterprise Award** program provides financial incentives to FDIC-insured institutions to invest in CDFIs and increase lending and investments in distressed communities. It is the only CDFI Fund program exclusively for bank applicants, and it looks retroactively at bank performance. The program is highly competitive. In FY2013, \$17 million in awards are available with applications due July 12th.

The CDFI Fund provided an update on the recertification process which is underway, and on a variety of research studies to evaluate the impact of CDFI programs. Some of the upcoming research studies include:

- An evaluation of the NMTC Program by the Urban Institute
- An evaluation of the impact of CDFI Fund investments in CDFIs by the Carsey Institute
- An evaluation of the Bank Enterprise Awards program
- Work with the Federal Reserve on identifying gaps in the market by mainstream financial institutions, and the role CDFIs play in filling those gaps
- A study that looks at how community development projects define, estimate and account for job creation.

Conclusion

The CDFI Fund offers a variety of programs to assist MDIs and CDFIs in raising and leveraging capital to better serve their low- and moderate-income (LMI) communities. Many of the programs are highly competitive, and the award criteria consider the economic impact of these banks in their communities. While most CDFIs focus on a specific LMI geographical area, it is possible to scale social impact across the country by defining the target market not in terms of geography, but in terms of a targeted population such as low-income targeted populations. Each CDFI Fund program has a help desk for specific questions. Information on the help desks is available on the CDFI Fund's website at www.cdfifund.gov.



Brian E. Argrett facilitates the roundtable discussion on collaborating with the CDFI Fund

Collaboration on Small Business Growth, International Trade and Small Business Lending

Panel Moderator	
H. Robert Tillman	Assistant Vice President, Federal Reserve Bank of Philadelphia
Panelists	
Grady Hedgespeth	Director of Financial Assistance, Small Business Administration
Tony James	Senior Vice President, ICBA Securities, Memphis, TN
Charles Tansey	Senior Vice President, Small Business, US Export-Import Bank
Jason Tepperman	Director, U.S. Treasury Small Business Lending Fund
Whitney White	CEO, Global Institute for Strategic Investment

Overview

Roundtable participants joined in the discussion with CEOs, government agency officials, and others on how to leverage programs to spur small business growth, job development, and small business lending in their communities. Programs include credit insurance, payment processing, loan guarantees, direct funding, guaranteed loan sales and technical assistance. The officials discussed how to access these programs and make them work for a Minority or CDFI bank.

General Discussion

There has been a shortage of community banks, including MDIs, willing to enter the export lending business. Immigration trends have created growth opportunities for local businesses located in underserved communities. The need is for financing export of these small business products to growing markets overseas. Most larger banks generally appear to be unwilling to make loans under \$500,000 so this is an opportunity for MDIs and CDFIs to fill the void.



H. Robert Tillman, Philadelphia Federal Reserve Bank, moderates the roundtable on Small Business Growth, International Trade and Small Business Lending

The Small Business Administration (SBA) has undertaken an initiative to focus their capital access and small business development services to increase the success of small businesses located in underserved markets. A number of small dollar loan programs are available, providing flexibility for both small businesses and community banks (see pp. 20-23 for a description of these programs). The burgeoning secondary market for SBA products also provides an opportunity for MDIs and CDFIs. SBA provides resources for banks that are interested in setting up an SBA department or participating in the Preferred Lender Program.⁴⁸

Many MDIs are located in states that also lead the nation in exporting. MDIs and CDFIs have additional tools to support the growth of exports from small businesses in underserved markets through the U.S. Export-Import Bank. Mission oriented banks have an advantage in their relationships with these small businesses, and the Export-Import Bank is seeking to partner with MDIs and CDFIs to boost export financing for small businesses. They are developing a package where banks can make a profit on trade finance for small businesses (see pp. 23-24 for more information on this program). Approximately 85 percent of Export-Import Bank deals are completed with small businesses as defined by the SBA.

Conclusion

A wide variety of tools and support are available to assist MDIs and CDFIs that have small business customers with products and services to export to expanding overseas markets. Demographic and immigration trends point to additional growth and business opportunities in the future.

⁴⁸ The SBA's Preferred Lender Program streamlines the procedures necessary to provide financial assistance to the small business community. Under this program, SBA delegates the final credit decision and most servicing and liquidation authority and responsibility to carefully selected PLP lenders. SBA, however, will continue to check loan eligibility criteria.

Lenders are considered for PLP status based on their record with SBA, and must have demonstrated a proficiency in processing and servicing SBA-guaranteed loans. In the event of payment default by the borrower and the need for enforced collections, the PLP lender agrees to liquidate all business assets before asking SBA to honor its guaranty. Additional information is located at <http://www.sba.gov/content/preferred-lenders-program-plp>.

Collaborating to “Tell Our Story”

Panel Moderator	
Joe Schmidt	Vice President, National Community Investment Fund (NCIF), Chicago, IL
Panelists	
Blondel Pinnock	Senior Vice President, Community Development Corp, Carver Federal Savings, New York, NY
Mark Ricca	President & CEO, First American International Bank, New York, NY
Norman Williams	President & CEO, Illinois Federal Savings, Chicago, IL
Greg Bischak	Program Manager, Financial Strategies & Research, CDFI Fund

Overview

Roundtable participants reviewed examples and discussed actual and potential ways to “tell and sell” their story, building on the efforts of NCIF members. They explored how to use the “social and economic impact” performance metrics of MDI and CDFI banks to: attract investors, board members, staff and customers; and inform examiner evaluations and Federal regulations, policies and programs. Participants had the opportunity to offer advice, make a recommendation, and help develop a winning strategy they can use.

General Discussion

Traditional measures of bank performance including return on assets and return on equity do not tell the full story of mission-oriented banks such as MDIs and CDFIs. Measuring social performance enables these banks to tell the important story of how they contribute to job creation, affordable housing, home ownership, and business development in their communities.

The National Community Investment Fund, a non-profit investor in CDFI banks, developed Social Performance Metrics and a Development Impact Dashboard to show the impact that CDFI banks are having in their communities at a point in time, over a period of time, and relative to standardized and customized peer groups. Using the dashboard, the NCIF showed that CDFI banks have three times the percentage of Home Mortgage Disclosure Act (HMDA) reported lending in economically disadvantaged communities compared to the median percentage for all banks in the country, and CDFI banks have four times the percentage of branch locations in these communities compared to all banks. The NCIF began measuring the impact using publically available data on deposits, branch locations and HMDA lending, but as investors began to use the metrics, mission oriented banks saw the value in providing additional private quantitative and qualitative data to NCIF to provide an even more robust measurement of the impact of these banks. Banks that collect this additional information on lending have found it useful, and have overcome potential privacy and burden issues. Going forward, NCIF plans to refine its standards and create certifications to enable the CDFI industry and their investors to have a common framework for measuring performance of mission oriented banks.

The CDFI Fund collects data on the impact of their programs in low- and moderate-income communities. They collect statistics on a variety of types of lending and investment including longer-term lending for community facilities and housing, small business lending, and micro-lending. They also compile information on numbers of businesses and affordable housing units financed, and numbers of jobs created or maintained through their programs. The CDFI Fund indicated a need to further analyze the results of investments and lending by CDFI banks in order to better communicate program results to stakeholders such as the President, the Congress, CDFI banks and the public. The CDFI Fund has a number of research efforts underway to measure the impact of their programs.

Conclusion

Community banks, MDIs and CDFIs need to be involved in “telling their story” both individually and collectively, to a variety of stakeholders. Senior leaders from three MDIs which use NCIF’s social performance metrics and dashboard described how helpful the information has been in communicating the impact of their banks in their communities with their Board, with current and potential investors, and in interactions with regulators. It is particularly critical to “tell the story” locally, especially in markets where MDI and CDFI products and services can be a superior alternative to predatory services.



Blondel Pinnock, Senior Vice President, Carver Federal Savings in New York, NY and Joe Schmidt, Vice President, National Community Investment Fund



Norman Williams, Illinois Federal Savings and Loan, Chicago

Collaboration with the FDIC on Resolutions and Asset Sales

Panel Co-Moderators

D. Michael Collins	Director, Office of Minority and Women Inclusion, FDIC
Pamela J. Farwig	Deputy Director, Division of Resolutions and Receiverships, FDIC

Panelists

Leslie Crawford	Deputy Director, Office of Minority and Women Inclusion, FDIC
Charles K. Liles	Senior Financial Analyst, Franchise and Asset Marketing, FDIC
James Sigler	Contract Oversight Specialist, Franchise and Asset Marketing, FDIC
Ronald C. Sommers	Manager, Franchise and Asset Marketing, FDIC

Overview

The FDIC continues to proactively expand its outreach efforts to encourage participation of small, minority and women-owned (MWO) investors in FDIC asset sales programs. Participants in this Roundtable obtained information about the types of assets the FDIC has for sale, the various methods used to sell assets, how to become pre-qualified as a potential asset purchaser/investor, and the types of sales opportunities/programs available.

General Discussion

The FDIC awarded 1,326 contracts with a combined value of over \$1 billion in 2012. Of these, 388 contracts worth \$308 million – nearly 30 percent – were awarded to MWO businesses. The FDIC also has made efforts to attract smaller and MWO companies to take part in their structured loan transactions when banks fail. In addition to the Small Investor Program, the Investor Match Program provides a web-based platform for companies to share information with other companies that have pre-registered with the FDIC to receive information on structured loan transactions. Currently there are over 180 registered participants, and one-third of them are minority or women owned. Prospective participants can visit the FDIC's website at www.fdic.gov to gain access to the automated online networking platform, which enables participants to identify potential partners and provides a forum to connect with them.

The FDIC has offered numerous seminars and information sessions to let the public know what it took to do business with the FDIC, with special emphasis on MWO companies and law firms. The FDIC's Office of Minority and Women Inclusion is an advocate for MWO businesses, providing technical assistance through its website including contracting checklists, how to respond to a Request for Proposal, how to compete with other businesses for FDIC work, and many related matters.

The FDIC presented the process and qualifications for potential participants in the Cash Sales and Structured Transactions programs. The presenters urged interested organizations to become prequalified by completing forms on the website, and encouraged potential investors to do their due diligence before submitting a bid. Participants inquired as to what is left in the FDIC's portfolio as the crisis winds down. The FDIC's inventory includes: about \$1 billion in securities; about 150 owned real estate parcels with \$415 million book value; cash loan sales of approximately \$50 million; structured transactions of about \$150-\$175 million; and multi-tranche securitizations of about \$300 million.

Conclusion

The FDIC provides a variety of opportunities for MWO firms to do business with the FDIC, whether providing the agency with contracted business services or purchasing assets through several asset sales programs. The FDIC's website provides extensive information on bidder qualifications, processes for contracting and asset sales, and contact information for additional technical assistance.

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