Remarks by

FDIC Chairman Martin J. Gruenberg

to the Interagency Minority Depository Institution (MDI) and Community Development Financial Institution (CDFI) Bank National Conference

Los Angeles, CA

April 5, 2017

Good morning, and welcome. It is good to be with you again. We have traditionally held this conference in Washington – I have to say it is nice to visit another part of the country and we thank the San Francisco Federal Reserve Bank branch here in Los Angeles for hosting us.

Minority banks have long played a vital role in their communities, and have gained unique expertise in serving populations that often do not have adequate access to banking services. An FDIC study found that the markets served by MDIs include a higher share of populations living in low- or moderate-income census tracts, as well as a higher share of minority populations.[1] Additionally, MDIs originate a significantly larger share of their mortgages to low- or moderate-income and minority borrowers than do non-MDI community banks.

Today's minority banks are a diverse group of institutions, owned or managed by individuals representing a range of minority communities, including African-American, Hispanic, Asian-American, Native American and Alaskan Native.

It is true that the number of MDIs has declined since the onset of the financial crisis and has continued to decrease in recent years. As of December 31, there were 157 MDIs in the United States and its territories, down from 215 institutions at the end of 2008—the peak for the 15-year period for which we have data.

However, it is important to note that MDIs' share of the total industry—in terms of the number of institutions and assets—generally has remained steady. MDIs account for 2.7% of the total number of insured institutions, and total assets at MDIs are more than $208 billion and continue to grow.

---

[1] Eric C. Breitenstein, Karyen Chu, Kathy Kalser, and Eric W. Robbins, "Minority Depository Institutions: Structure, Performance, and Social Impact," *FDIC Quarterly* Vol. 8 No. 3 (2014), https://www.fdic.gov/bank/analytical/quarterly/2014_vol8_3/mdi_study.pdf.

Overall, minority banks' performance mirrors that of the banking industry as a whole, which has seen recent growth in loan and deposit balances, as well as profitability. Most minority banks are community banks, and this sector of the industry has been expanding small loans to businesses at more than twice the rate of noncommunity banks, and has seen a decline in net charge-offs.[2] More than 60 percent of MDIs saw their annual net income rise from 2015 to 2016. Last year, these institutions saw the ratio of loans past due to the total loan pool fall to its lowest level since 2008.

Still, the FDIC recognizes the challenges facing MDIs today. While the share of profitable MDIs to the total of MDIs increased to its highest level since before the crisis at the end of last year, nearly 15 percent of MDIs were *un*profitable, a percentage that was more than three times that seen at community banks and at all banks. The unprofitable MDIs are mostly smaller institutions, many of which are located in urban areas that experienced significant economic distress during the recent financial crisis.

The FDIC is also looking closely at the issue of succession planning at community banks and MDIs. It is essential that these institutions develop a pipeline of talented junior managers who will be able step in when senior bank managers begin to retire. Without adequate succession planning, the viability of a bank could be at risk. The FDIC is particularly focused on this issue now and I welcome your ideas for ways we can further our work.

The FDIC's MDI program is fully integrated into our supervision, consumer protection, and receivership divisions. As part of this program, the FDIC keeps at the forefront our statutory goals to preserve the minority character in cases involving a merger or acquisition of an MDI, to help prevent insolvency of MDIs, and to encourage the creation of new MDIs.

---

[2] "Quarterly Banking Profile: Fourth Quarter 2016," *FDIC Quarterly* Vol. 11 No. 1 (2017), https://www.fdic.gov/bank/analytical/quarterly/2017_vol11_1/fdic_v11n1_4q16.pdf.

To learn more about the characteristics of recent merger and failure activity, the FDIC recently updated through 2016 the information in our 2014 research study that captures the impact of structural changes on the assets controlled by MDIs.[3] Between 2002 and 2016, the number of voluntary mergers—at 72—was nearly double the number of failures—at 39. Among MDIs that voluntarily merged or consolidated during that same period, 54 percent of the institutions and 76 percent of total assets were acquired by another MDI. Among MDIs that failed between 2002 and 2016, 38 percent of the institutions and 86 percent of total assets were acquired by another MDI. Although the rate of acquisition by another MDI was higher for voluntary mergers than for failures, the FDIC has worked hard to keep MDI banking relationships within their communities for each failure.

In the event of a potential MDI failure, the FDIC contacts all MDIs nationwide that qualify to bid on failing institutions. The FDIC solicits qualified MDIs' interest in the failing institution, discusses the bidding process, and provides technical assistance regarding completion of the bid forms. For example, during 2016, the FDIC offered technical assistance to three MDIs that were considering a joint bid on a failing institution. The assistance covered the FDIC's experience with structured transactions for possible use with failed bank assets and provided guidance on the technical aspects of alliance bidding.

As part of the FDIC's MDI program, we continually seek to identify initiatives to enhance our ability to carry out our commitment to MDIs. These initiatives often involve training, technical assistance, and education programs for MDIs.

Last year, the FDIC provided 135 technical assistance sessions to minority banks covering approximately 66 risk management and compliance topics. Our regional offices also

[3] See the FDIC's *Preservation and Promotion of Minority Depository Institutions – Report to Congress for 2016*, page 7, https://www.fdic.gov/regulations/resources/minority/congress/report-2016.pdf.

held outreach, training, and educational programs for MDIs through conference calls and regional banker roundtables. We also last year co-hosted with the Office of the Comptroller of the Currency and the Federal Reserve a webinar on strategic planning attended by approximately 50 MDIs.

Further, as part of our efforts to promote the creation of new banks, the FDIC last year began hosting sessions across the country for prospective bankers, attorneys, and other interested parties to discuss the process for starting a new bank. We also issued a handbook that provides detailed information on the process for applying for deposit insurance. Since last year, the FDIC has received several inquiries from groups interested in organizing a *de novo* MDI.

We are also working with the other agencies on a resource guide to encourage collaboration among MDIs and between MDIs and other institutions. This publication will highlight examples of collaboration with and among MDIs, the benefits of partnering with MDIs, and Community Reinvestment Act considerations.

Let me conclude by reaffirming the FDIC's statutory obligation and commitment to supporting minority depository institutions. I look forward to our discussion this morning.