

**Remarks by
Martin J. Gruenberg, Chairman
Federal Deposit Insurance Corporation
Before the
National Bankers Association 87th Annual Convention
Washington, DC
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Good afternoon. Thank you, Michael Grant, President of the NBA, and Preston Pinkett, NBA Chairman and President and CEO of City National Bank of New Jersey.

Minority banks and CDFI banks are a vital part of our financial system. Minority bankers have been serving the needs of their communities for about 125 years, and the National Bankers Association has been the voice of minority banks. Your mission is important. You provide affordable, safe, responsible banking services to many who might not otherwise have access to a bank. And, you serve some of the most challenging markets in the country.

One way that the FDIC can contribute to your efforts is by conducting research specifically on MDIs and CDFI Banks. For this reason, we recently released a study by the FDIC's Division of Insurance and Research, entitled, *Minority Depository Institutions and CDFI Banks: Structure, Performance and Social Impact*.

The study explores:

how the industry has changed over time,

how MDIs have performed financially, and

how they have served their communities.

I understand Bob Mooney, the FDIC's National Director for MDIs and CDFIs, will be presenting an overview of the study to you this afternoon.

We hope that the study will help you tell your story; attract investors, partners and staff; and better inform legislative and regulatory initiatives.

As an industry, you have been determined and resilient throughout your history, facing numerous difficult periods, 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 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.

Minority Banks Today

Let me just give you a brief profile of the minority banking sector. Today, 174 minority banks, with nearly \$185 billion in total assets, promote the economic development of minority and underserved communities in the United States. Employing 35,000 individuals in 33 states and territories, minority banks are increasingly diverse. Ranging

in size from \$12 million to \$27.4 billion, the vast majority is under \$300 million.

Like the overall condition of banks and thrifts, minority banks are gradually recovering. However, the pace of recovery is somewhat slower. The number of unprofitable banks, 22 percent, is the same level as two years ago. Earnings continue to be sluggish, although we have seen a return to loan growth. Provisions for loan losses are decreasing and charge-offs are down, pointing to improving asset quality. However, we have not seen growth in bank equity.

Overall, profitability (i.e., a positive ROA) seems poised to show an improvement for minority banks. At the end of 2010, more than 42 percent of minority banks were unprofitable, compared to 22 percent of banks overall. In 2011, 32 percent of minority banks were unprofitable, and as of June 30, 2014, the percentage of unprofitable minority banks is 22 percent. While that is half the level of four years ago, it is still close to three times the rate for banks overall.

However, we know that the smaller minority banks, including those that are CDFIs, and African-American banks in particular, may not have the product and geographic diversification that enables larger banks to perform better during an economic downturn.

In fact, 24 of the 28 African-American banks are also CDFIs. We know that many of these banks continue to struggle with profitability. However, we also know that the recovery has not reached many of the low- and moderate- income communities they serve.

Yet, I think we can all agree that minority communities need strong and profitable minority banks to help spur local economic recovery. And, we want to work with you to achieve that end.

By the way – I have to say – the fact that 24 out of 28 African-American banks are also CDFIs truly indicates just how strong your commitment is to serving lower income communities. But for you, some of them would not have direct access to full banking services.

CDFI Banks are also a small segment of the banking industry – only about one-percent of FDIC-insured institutions– but have a big impact on your communities.

CDFI banks provide services to otherwise under-served customers in communities “hardest hit” by the Great Recession.

They have over four times as many branch locations – and make three times more mortgage loans - in low and moderate income areas than other banks.

Recent CDFI Bank Industry performance is encouraging

For the 99 CDFI banks (41 are MDIs), performance is improving, although at a more measured pace than the industry overall.

Since 2012, earnings have edged up and asset quality has improved.

However, challenges continue: Over 22% of CDFI banks remained unprofitable as of June 30, 2014 (compared to less than 7 percent for the banking industry overall).

We know that you face significant challenges in carrying out your mission:

- Raising additional capital
- Improving asset quality
- Meeting changing regulatory requirements
- Achieving economies of scale
- Recruiting and retaining talented leaders

It is important for your voice to be heard. We know that regulatory changes can pose challenges for community banks, including MDI and CDFI banks. I especially appreciate several of you coming forward to meet with me last year to express your hopes and concerns as we developed new rules and guidelines.

Looking Toward the Future

Looking toward the future, I'm encouraged by the discussion that many of you started at the *Interagency MDI and CDFI Bank Conference* that we hosted last year.

What we heard there:

- CEOs at the conference (including several of you here today) acknowledged that there are challenges, but expressed your confidence in facing these.
- You noted that, if not for you, many of your customers would be left without financial services.
- You expressed the desire to design new business models to adapt to market and regulatory changes, and pledged to unite your voices to tell your story.

- You committed to work together to provide input to regulators on the impact of proposed rules and how to improve the exam process
- Many of you committed to exploring partnerships for increasing scale to attract investors, and to reduce costs. Possible areas for collaboration include raising capital, loan participations, and finding ways to share back-room operations.

Conclusion

Let me conclude by saying that the community banking sector, overall - and minority banks, in particular - are at a unique place in history. The nation's demographics are changing. New technology is opening new doors for underserved consumers. These challenges create opportunities for community and minority banks. The FDIC has been exploring some of these at the suggestion of our *Advisory Committees on Community Banking and Economic Inclusion*. Some of our Advisory Committee members are NBA members – and I am pleased to see a few

of you here today - who are participating in these forward-looking activities.

Let's work together to develop partnerships that tap into these opportunities.

I hope to see you at the *Interagency Minority Depository Institutions and CDFI Bank Conference* that we are co-hosting in 2015, where we can continue those discussions.

And, I look forward to working with you to ensure a vigorous minority banking sector that continues to be a source of hope and financial progress for underserved communities.

I would be happy to take your questions.

Thank you.