



Minority and Community Development Banking

BRIAN SULLIVAN: Welcome back to the FDIC Podcast, a place to talk about our banking system in this country and how it all fits in with our personal financial lives. I'm Brian Sullivan with the Federal Deposit Insurance Corporation and today we're pleased to begin a new series of podcasts in partnership with the National Bankers Association we call "Banking on Inclusion." As that name might suggest, this series of podcasts will focus on the work, both in and out of government, to make certain our financial system is diverse, equitable and includes ... everybody, mostly especially the unbanked.

To launch this new series, we welcome two guests who are plugged into the world of minority owned and managed banks or Minority Depository Institutions. Betty Rudolph is the director of the FDIC's new Office of Minority and Community Development Banking. And Nicole Elam, President and Chief Executive Office of the National Bankers Association, a nearly century old organization representing minority banks in this country.

Welcome to you both...Betty, let's begin with you. Tell us about this new office you now lead?

BETTY RUDOLPH: Well, thanks, Brian. And while this new office is new, there's nothing new about the FDIC's commitment and work to engage these banks. We've been doing that since 1989, when Congress passed a law laying out five goals for us to work towards preserving and promoting Minority Depository Institutions. And why are these banks important? Our research has shown that they serve minority, low-income and rural communities at higher rates than non-MDIs, comparable non-MDIs. So we work towards these goals in the context of our primary mission, which is to insure deposits and promote public confidence in the banking system. Our role is to ensure safety and soundness of the banks we supervise and insure and to carry out consumer protection laws.

BRIAN SULLIVAN: Okay, so we've had this long-standing mission at the FDIC going back some time to, to preserve and promote these banks. But now this new office that you lead sort of takes it to a new level?

BETTY RUDOLPH: Yes, it does. I think it's a recognition of the work that we've been doing, but it's also an expectation for more. And for me personally, it provides additional resources for us to do this work. And I think that, uh, where we want to go is to have much more strategic partnerships in doing this work with our, with our folks at the trade organizations, with the banks themselves but also with a number of private and public sector entities that have really step forward in the past two years and committed billions of dollars to supporting this sector. And we want to be there at the forefront of developing partnerships to make sure that we are supporting these institutions the best way we can.

BRIAN SULLIVAN: Okay, Nicole, your organization has been around since 1927. Tell us a bit more about the banks you represent and the historic role that they played, and continue to play really, in our larger financial system.

NICOLE ELAM: Well first, Brian, I want to say thank you for having me on the podcast and to Betty, who's certainly been a friend to MDIs and CDFIs. So as you mentioned, I'm the president and CEO of the National Bankers Association, which has represented the nation's Minority Depository Institutions since 1927. So our member banks include African-American, Asian, Hispanic, Latino, Native American, and Women owned and operated Banks all across the country.

What's unique about these banks is that these banks are majority owned and operated by people of color and they predominantly serve communities of color. And so because of that, they have been central to helping to close the wealth gap. They have been a central engines of economic development in those communities. And so these, these MDIs are only about three percent of the banking sector. So about only 144 of these MDIs all across the country. But even though they're three percent of the banking sector, they certainly punch well above their weight, right? They have been the ones that have been born out of racism for lack of a better term when black and brown communities couldn't go anywhere else, they were going there to these to these banks. And so historically they have been the ones that have provided mortgages, small business loans, access to financial services when others did not. And often times people ask, well, is that still needed? Yes! It is still needed because today you still have minorities who are rejected for credit at a rate that's two times that of their white counterparts. So there's still a place for folks to go. And when other people aren't getting loans, they're being, they're able to get those loans from these Minority Depository Institutions.

BRIAN SULLIVAN: Well, let me ask you both and beginning with you, Nicole, the number of minority owned banks in this country has declined rather substantially over the decades. Indeed, the *total* number of banks in this country, banks of *all* kinds, has declined over the years...either through economic hardship and bank failures during bad times or, these days more likely through mergers. How is this consolidation impacting minority banks and their presence in certain communities?

NICOLE ELAM: Yeah, so there has been a 44 percent decline in banks since 2005. And the hardest hit communities have been minority and rural hit communities, right? More than half, 56 percent of African-American banks have closed, 40 percent of banks in rural communities have closed. Why does it matter? It matters because these banks are central to helping to close the wealth gap. When you think about what the leading contributors are to wealth creation, it's access to financial services. It's really hard to grow your wealth if you don't have access to financial services. Homeownership continues to be a leading contributor to wealth creation and having a profitable small business. And so when you don't have these banks in these communities, you see an impact.

What I will say though, is that even though there are less banks, I would not say that proximity is the driving factor for access to banking services, right? You may have gone from two banks that you can walk to maybe there's now one bank that you could walk to and one that you have to drive to. Access to proximity to banks are important, but I think it's about the things that you're doing to make sure that people have access to capital and technology is a huge driver of that. So you need branches, but branches...there's a lot of conversation around branches, but that's not the end all be all to solving for unbanked and under-banked populations.

BRIAN SULLIVAN: We're going to get to technology in just a minute, but Betty, from where you sit, how is consolidation writ large impacting minority and community development banks in this country?

BETTY RUDOLPH: Well, I think that the banking crisis definitely was a challenge because a lot of these banks are much smaller and they can't spread their costs over a larger revenue base. Some of these have been good mergers that have created stronger, more scalable institutions, quite frankly, as minority banks have merged with each other to become larger institutions. But some of the things that we're doing to try to support these institutions through our MDI program are calling attention to creating access to the capital market. So the Chairman through the Mission-Driven Bank Fund is establishing a vehicle to create capital opportunities for these banks, um, technical assistance opportunities. And you know, well, before George Floyd was killed, we were bringing together large banks with minority banks to explore partnerships for how both of those banks could benefit from developing partners, uh, to serve minority communities, low-income communities and more.

BRIAN SULLIVAN: Nicole, in FDIC's own research, their every other year *How America Banks Survey*, we learn, not surprisingly, that most people bank by phone these days or online. There's this, and you mentioned it, this, this kind of technological or titanic explosion taking place in banking. How are minority and community development banks doing in making this digital jump to the way people bank today?

NICOLE ELAM: Yeah, so you're, you're absolutely right. Digitization is huge and people are wanting to do mobile banking and bank online. The challenge with technology and we know technology is central, right. Those banks that had technology fared better during the pandemic, right, because they had that technology to keep things moving.

The challenge is technology is expensive, technology is expensive. And so if you are a small bank with an average asset size, last year MDIs had an average asset size of \$250 million...so the smallest of the small banks. This year, it's tracking about \$315 million, so growing, but still the smallest of the smallest banks when you think about you can be a community bank with \$10 billion or less in assets. Technology is a huge cost, and so it is a struggle because many of them have outdated infrastructure. They're reliant, overly reliant on their cores who oftentimes operate on legacy systems. So they're, they're really beholden to their technology vendors and then you have to add on the additional layer of it just costs so much to keep up with technology. And so that's why we're working very closely with private sector, public sector to really identify ways that they can digitize and modernize because that's going to be central, not just for the future of banking, but for the now of banking.

BRIAN SULLIVAN: Right. Well, Betty as Nicole just pointed out technology doesn't come cheap. I think we can all agree that we're at this crossroads today where banks must innovate and adopt new technologies, but is there a danger here if smaller minority and community development banks fail to innovate and are left behind as it were...are we also risking leaving behind all those families and small businesses and indeed *communities* that have historically depended upon these banks?

BETTY RUDOLPH: Absolutely. Minority banks and indeed all community banks are well situated in their communities. We know that they offer relationship banking, but they must innovate as Nicole emphasized. First of all, let me just say in the world of technology, we can't recommend in our role as a primary insurer and regulator...we can't recommend technology roadmaps or specific third-party

vendors. Bank management is really responsible for that due diligence. But what we can do is facilitate partnerships and understanding through our power to convene and our power to speak out.

BRIAN SULLIVAN: Have you noticed any increased interest expressed by larger commercial banks or credit unions or whomever to engage with minority owned banks to amplify the work that they do in the communities they serve?

BETTY RUDOLPH: Absolutely. We put out a publication last year, which quickly became outdated that listed a number of these partnerships. A lot of them are, uh, direct equity investments in these banks. I think Nicole can verify this, but I believe in just the African-American MDIs, a \$150 million plus of new equity investments over the past 18 months and more on the way. That is significant, it's about a 45 or 50 percent increase in capital.

NICOLE ELAM: Yeah, I think here's the thing...you see about four or five of the largest banks making direct equity investments. But what if you had more than those five banks doing direct equity investment, right? What if you had *all* the large banks...what if you went to the regional banks, the large regional players to make direct equity investments. And so, I think what MDIs have always struggled with is under capitalization. And as Betty said, that number...often times people ask me the question, oh my goodness you know, banks have had so much capital flowing into them and it's like \$150 plus million dollars of equity and capital over the last 12-to-24 months in no way levels the playing field of 155 plus years of under capitalization.

So we need more direct equity investments by more institutions. We also need more than just direct equity investments, but we need partnerships where they're focused on New Market Tax Credits, being co-lead syndicators, bringing us in on deals. So I think there's a number of different ways that large institutions can work with MDIs in a way that is ongoing and integrates them into their ongoing business opportunities. That's, that's systemic and that's change more than just direct equity investments, but these ongoing integration of MDIs into the way that they do business.

BRIAN SULLIVAN: Nicole, what would be your message to others in the financial services sector about how they might partner with minority banks?

NICOLE ELAM: Yeah, I would say you can partner through direct equity investments. You can partner through New Market Tax Credits. You can partner through your ATM...allowing them to use your ATM network. You can partner with just your expertise. You can partner with loan syndications there are so many ways. And if you want a way that fits the way that you do business call the National Bankers Association. That's a one stop shop of having access to these MDIs. And if you don't want to call us, call the MDI down the street. Pick up the phone because there are number of different ways that you can partner with them to impact your footprint and theirs as well.

BRIAN SULLIVAN: You know, Betty, I remember you telling me that when the pandemic hit and the Paycheck Protection Program was born and in the second tranche of that program, a certain amount of money was set aside specifically for MDIs and your phones were ringing off the hook and you were getting calls from people wondering where they can find a Minority Depository Institution and then how to get in touch with them to partner up. And, just tell me a little bit about that.

BETTY RUDOLPH: Right. You know, one of the simplest things we've done is put an [interactive map](#) on our website, showing the branch and headquarters location of all FDIC-insured Minority Depository

Institutions with a link to their website. We received calls, daily, our web hits went, you know, 25,000 hits in a couple of weeks' time. And it really made it real uh, when you can help connect a customer to a bank that is going to be helping them and MDIs and CDFIs really stood up during the pandemic to make these loans and, uh, develop new customer bases in some, in many cases.

And I would just add that you know, Nicole talked a lot about, large bank partnerships and private sector partnerships...one of the functions of the new office will be partnerships with other federal agencies. It's surprising how many finance, uh, federal agencies really have programs that support minority banks. The Department of the Treasury has three or four different programs. The SBA we talked about, Commerce, Minority Business Development Agency in the new infrastructure bill that just passed, it specifically names, a partnership opportunity for us with the MBDA, the Housing and Urban Development Department, Interior, Department of Energy, Agriculture...so many federal agencies have these programs and we want to find ways to, to partner to bring minority banks into these programs.

BRIAN SULLIVAN: Well, let me close by asking both of you if reading the tea leaves here, are you noticing something happening here? Nicole, let's begin with you, something different than maybe what we may have been experiencing all along in the history of minority-owned banks in this country?

NICOLE ELAM: Yeah, I think something is certainly happening when people are saying MDI, right? Like people are talking about Minority Depository Institutions and Black- and minority-owned and operated Banks more than ever. And so I think what we have to do is really take this moment where there's a focus on it and turn that into policy changes, turn that into business practice changes so that this is more than just a moment in time, but it's longevity change. And my fear is that if we focus on writing checks, that doesn't lead to systemic change. You really have to change policy. You have to change the way that you do examinations. You have to change the way that you regulate. You have to, there are so many things the way that you do business, right? Every organization has to bank and borrow, when you bank and borrow, are you utilizing an MDI, right? Just that basic question can change everything. And so things are changing lots of opportunities. But I think the way that you keep the focus is go for the things that aren't so easy and go for the things that a little more systemic.

BRIAN SULLIVAN: Betty?

BETTY RUDOLPH: Yeah, I think making this office permanent is a key piece of that. We've been around, like I said, since 1989. We are now an office with the ability to have a seat at the table as policy is being discussed and, um, you know, by making a very strong statement, both externally to our stakeholders, but internally within the agency as well. I think it's a strong step forward in recognizing the important work that these institutions do in the important communities that they serve.

BRIAN SULLIVAN: Well, I would like to thank you both for joining us. Betty Rudolf, the Director of the FDIC's new Office of Minority and Community Development Banking...and to you, Nicole Elam, the president and chief executive of the National Bankers Association. Thank you both for joining me today.

NICOLE ELAM: Well, thank you Brian, for having me. And I would certainly be remiss if I did not say a big thank you for the creation of this new office. It will be central to our advocacy as we go to other regulators telling them to do the same.

BETTY RUDOLPH: Thank you, Nicole. Thank you, Brian.