

Remarks by
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at the

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Good afternoon. Thank you for inviting me to speak here today.

The mission of the FDIC – in particular, our goal to expand economic inclusion – is one that resonates with me on a deeply personal level. I spent my 18th birthday on a plane *en route* to the United States, with \$500 in my pocket and the dream that I could make it.

Within six months of my arrival, the airline that brought me to the U.S. and my former homeland both ceased to exist. As I am about to reach my first anniversary at the FDIC – with the FDIC still around and in good shape, if I may add – I cannot help but marvel at the many opportunities that have been available to me during those 28 years.

The day after I arrived in California, I opened a checking account at a bank, and deposited all of my \$500 in that account. It did not take long for me to realize that, in addition to a checking account, I should have a credit card.

I applied for a credit card, but with no credit history and no assets other than that meager \$500, I was denied. Instead, I was offered the option to open a secured credit card and I jumped on it. If you really think about it, the entire concept did not make sense: I was essentially borrowing from myself while the bank held my money as collateral and collected the interest. But with each swipe of that credit card I felt more integrated into the very fiber of American society.

After 12 on-time monthly payments, the bank released my security deposit. With my newly established credit history, I was able to obtain an unsecured credit card, and a world of opportunities opened up. From there, I built my credit history and qualified for an auto loan, student loans, and, eventually, a mortgage for my first home. (In fact, two mortgages, as one was insufficient.) I understand from personal experience how important the financial system is to people of all walks of life.

Community Banks

As of March 31, there are 4,930 insured community banks in the United States. As the primary federal supervisor for many of these institutions, the FDIC is uniquely positioned to assess and observe the vital role small banks play in local communities and in the U.S. economy overall.

Our latest Quarterly Banking Profile reports that the annual rate of loan growth at community banks was 6.6 percent in the first quarter, stronger than the overall industry. This growth was led by commercial real estate loans, residential mortgages, and commercial and industrial loans. Net income at community banks also surpassed the overall industry, growing by 10.1 percent from a year earlier.

Supporting this segment of the banking system is paramount. Community banks in the U.S. are intertwined in a symbiotic relationship with their communities: if those communities do not do well, neither will their community banks.

The role of regulatory agencies is not to stand in the way of those relationships but to encourage them. To achieve that goal requires that regulators get out of the D.C. “beltway” and hear firsthand both from the bankers and the communities they serve. In my first year at the FDIC, I am almost halfway through a 50-state listening tour. Informed by these meetings with local bankers, state supervisors, consumer groups, and FDIC employees, I have directed the FDIC to increase our efforts to:

- Actively seek ways to reduce regulatory burden on our community banks;
- Encourage community banking, including the establishment of *de novo* banks in communities of all sizes;
- Promote and preserve the nation’s Minority Depository Institutions (MDIs);
- Modernize the Community Reinvestment Act (CRA) framework and provide clarity to institutions on their CRA obligations; and
- Ensure that our regulatory framework encourages banks to offer products and services to low- and moderate-income households.

Minority Depository Institutions

One of the FDIC’s statutory responsibilities is to preserve and promote the health of MDIs. The vitality of MDIs is critical, given their role in the economic well-being of the minority and traditionally underserved communities many MDIs serve. The FDIC fully embraces its role in supporting these institutions and we have increased our support through the following actions:

- In 2018, we appointed a full-time, permanent executive to manage MDI programs across the FDIC;
- We have increased the representation of MDIs on the FDIC’s Community Bank Advisory Committee (CBAC);

- This fall, we will establish a new MDI subcommittee on the CBAC to both highlight MDIs' efforts in their communities and to provide a platform for MDIs to exchange best practices;
- Later this month, we will host the 2019 Interagency MDI and Community Development Financial Institution (CDFI) Bank Conference to highlight the many ways MDIs and CDFIs can create positive change in their communities;
- Also this month, we will host the first of several roundtables with MDIs and non-MDIs supervised by the FDIC to share expertise and to promote possible collaborative opportunities, including direct investments and deposits in MDIs;
- We are about to publish a research study on the impact of MDIs in their communities, particularly in providing mortgage credit, SBA-guaranteed business loans, and other banking services; and
- We continue to provide technical assistance to groups seeking to organize new MDIs, and to existing MDIs to support their efforts to acquire failing institutions.

Community Reinvestment Act

The nation's banks also play a vital role in community reinvestment. The Community Reinvestment Act (CRA) establishes an affirmative obligation on the part of every federally insured bank to meet the credit needs of the communities they serve, including low- and moderate-income neighborhoods.

Partly as a result of the CRA, banks have contributed to the growth and success of these neighborhoods for the past 40 years. Banks have improved homeownership opportunities among low- and moderate-income families, fostered banking relationships by offering access to low-cost savings and checking accounts, promoted financial literacy, and supported small businesses and entrepreneurs. Your comment letter to the Office of the Comptroller of the Currency (OCC) underscores your organization's strong commitment to the Community Reinvestment Act.

The banking landscape has changed dramatically since the law was enacted, and the FDIC and other agencies are looking at ways to modernize the CRA framework to improve its effectiveness and provide clarity to financial institutions.

Last year, the OCC solicited feedback on CRA reform. We have reviewed the comment letters received and are working with the OCC and the Federal Reserve on a proposal for a revised regulatory framework.

- We will focus on clarifying what activities qualify for CRA credit. Institutions are more likely to make community investments when they are confident that these investments will qualify for CRA credit.

- We will also be reviewing how we assess lending – including digital lending – by banks outside of the area where their main offices and branches are located.
- Finally, we will be working to ensure that CRA investments target those most in need in a bank’s community.

I know that you have a particular interest in how larger banks may be evaluated for CRA purposes with respect to potential partnerships with CDFIs. There were a lot of comments on that issue, and I am sure it will be part of the discussions that take place.

As you may know, the three agency principals have been meeting regularly for a number of weeks to see how we can come to a broad agreement on a set of priorities for CRA reform. These conversations are ongoing, and they have been productive. I hesitate to put a timeline on this process, but I will say this continues to be a priority for the FDIC.

Outside of the CRA reform effort, the FDIC conducts an array of outreach activities to promote community development activities. We also developed a resource guide to help FDIC-supervised institutions meet community credit and development needs by identifying opportunities to collaborate with CDFIs.

Small-Dollar Lending

Another area the FDIC is reviewing is our approach to small-dollar lending. According to a recent study by the Federal Reserve, nearly four in 10 households cannot cover a \$400 emergency expense with cash. I know because I was one of them.

As someone who once lived paycheck to paycheck and was often left with two to three dollars in her account at the end of the month, I am acutely aware that sometimes consumers need immediate access to cash to cover an unexpected cost before the next paycheck.

Generally, consumers benefit when they can walk into a bank to obtain this type of credit, especially banks that have longstanding relationships with local customers and communities. But banks may have chosen not to offer such products because of regulatory uncertainty. As a result, many families rely on non-bank providers to cover these emergency expenses, or their needs go unmet.

Banks can meet those needs in a manner that makes sense for both the bank and the consumer, and the FDIC is looking for ways to encourage them to do so. In November, we issued a Request for Information (RFI) on small-dollar credit products, seeking more insight on consumer demand, the supply of these products currently offered by banks, and measures the FDIC can take to encourage banks to offer them.

We gathered a lot of valuable information through this process, particularly about how banks structure their small-dollar credit products, how they underwrite those loans, and how they use technology to service them. We are using the feedback we received to formulate guidance that can help institutions develop small-dollar loan programs that meet their business needs and are safe, accessible, and understandable to consumers.

Of course, it would be optimal if consumers could meet their financial needs without the need to borrow money, but that is not the reality for many. We are also working with the Federal Reserve and OCC on a joint effort on this topic.

Innovation

Technology is another area that can help the FDIC and financial institutions meet consumers where they are. Consumer behavior is constantly evolving, and we need to respond to those changes. This means being accessible to both the millennial who has never stepped foot inside a bank branch and also the young immigrant who cannot afford a smartphone.

Fintech firms have developed new approaches to reach these consumers, improve the customer experience, lower transaction costs, and increase credit availability. More banks can leverage technology to do the same.

I announced last fall that the FDIC is establishing a new internal office to promote innovation in the industry. We have already begun partnering with banks to understand how they are innovating, and promoting technological development at community banks which may have limited funding for research and development.

We are also looking at what policy changes are needed to encourage innovation, while maintaining safe and secure financial services and institutions. This is especially important because technology offers a tremendous opportunity to expand access to the banking system.

The FDIC's latest survey shows that more than 8 million households do not have any relationship with the banking system. Another 24.2 million households are underbanked, meaning they have a bank account but also meet some of their financial services needs outside of the banking system. In short, millions of Americans are missing out on the important benefits banks provide, including wealth building opportunities and the protection provided by deposit insurance.

Unbanked and underbanked rates are higher among lower-income households, less-educated households, younger households, black and Hispanic households, working-age disabled households, and households with volatile income. Innovation and technology have the potential to provide important inroads to reach these consumers.

Conclusion

Community banks matter. They matter to their customers, employees, shareholders, communities, local libraries, schools, and small businesses. For all of our focus on the nuance of community banks, it is easy to miss the big picture: the role banks in general play in the United States of America.

When I received a secured credit card 28 years ago, I started building my credit history. With that credit history, I became a part of the system. That very system enabled me to get a college degree and a law degree from an esteemed public university, to become a homeowner, to provide food and shelter for my elderly parents and a young daughter as a single mom, and eventually to stand before you today as the 21st Chairman of the FDIC. I do not mean to downplay my role in getting where I am today: trust me when I tell you that it took an extraordinary amount of grit, sacrifice, and perseverance to go from \$500 to the FDIC Chairmanship. But I firmly believe that I could not have done it anywhere else in the world, and I certainly could not have done it had I not become a part of the system here.

As I was building my life in the U.S., I could not help but juxtapose my experience in the land I chose to call home to that of the land where I was born. My father was – and still is – a hard-working man. When the former Yugoslavia and its financial system collapsed in the early 1990s, he went to work as a day laborer for \$5 a day. My mother was a seamstress and a cafeteria server in a government-owned construction company.

If my parents needed to borrow money, they did not go to a bank – not because they could not find one or because they mistrusted banks. On the contrary, banks were aplenty, all state-owned, and my parents did not mistrust banks. However, bank credit was either hard to get or prohibitively expensive, so my parents would borrow money from a friend or a family member, as they did to send me to America. People who had money to lend lived in constant fear of break-ins and home invasions. In the United States, banks ameliorate the need for people to hide their money in a mattress, and the FDIC guarantees deposits up to \$250,000 per insured depositor.

That secured credit card in 1991, on terms that I would probably find egregious now, was my ticket into the system that has subsequently allowed me to thrive. And, as I thrived within the system, I learned to respect it and contribute to it. As I became a taxpayer, a homeowner, a mother of a child in public schools, and a public servant in various roles at the Federal Reserve, the United States Senate, and now the FDIC, along the way I stopped being disenfranchised. Instead, I became a shareholder in the United States of America with a vested interest in its success.

Thank you again for the invitation to speak today. I look forward to working with you to build wealth in our communities, expand access to banking products and services, and bring unbanked and underbanked consumers into the banking fold. My hope is that 28 years from now one of those consumers will stand before you and tell her American Dream story. Thank you.