To: Robert E. Feldman, Executive Secretary, (FDIC)
From: Emilee Bell, Shekinah Kahongo, and Thomas Stuart
Date: November 20, 2020
Subject: Comment on Statement of Policy Regarding Minority Depository Institutions (RIN 3064-ZA19)

Dear Mr. Feldmen,

Thank you for the opportunity to comment on the proposed revision statement of policy regarding Minority Depository Institutions. We are graduate students at the George H.W. Bush School of Government and Public Service at Texas A&M University in the Master of Public Service and Administration Program.

Our comment first addresses the definitions mentioned in the Federal Deposit Insurance Corporation (FDIC) proposed revision statement of policy regarding Minority Depository Institutions (MDIs). We highlight the importance of terms that capture the essence of services the FDIC provides while simultaneously driving positive MDI member engagement and program engagement.

Second, we address the FDIC's current outreach and education efforts to engage Minority Depository Institutions. The commentary includes alternative suggestions to aid the FDIC in upholding its mission and vision to support, preserve, and lead MDIs to long-term economic viability through outreach and educational resources.

RECOMMENDATION SUMMARY

1. Consider employing the term "professional consultation" in place of “technical assistance” to encourage working relationships with MDI executives.
2. For MDIs to be inclusive of women in their leadership, the FDIC should consider stipulate that for organizations to earn MDI status, "They must have at least a minimum of two women on their executive leadership boards."
3. Centralize MDI resources in a single hub system to increase accessibility for MDIs and transfer the burden of requesting services from the MDIs to the FDIC case workers.
4. Expand the events organized for MDIs to encourage the entry of new MDIs into the market. Specifically, we recommend an annual informational conference for entrepreneurs interested in entering the industry.
5. Increase the accessibility of FDIC caseworkers by expanding the system to reach out to MDIs and those in the process of creating new MDIs.
6. Update MDI research on potential impact on rural areas, and how to successfully scale MDIs in rural areas.
7. Change the approach to technical outreach by updating the website and offering modern tools. Website organization should be designed with the different users in mind, specifically, entrepreneurs, new MDI managers, growing MDIs and faltering MDIs.

Introduction

The proposed revision statement of policy regarding Minority Depository Institutions (MDIs) is a laudable effort and we welcome the opportunity to suggest methods to better support these critical financial institutions. However, to effectively serve MDIs, the FDIC needs to do more than simply revise its policy statement. Considering a statement by Chairman McWilliams, "The health of Minority Depository Institutions is essential to the health of our nation's financial systems...They are the lifeblood of their communities," leads us to consider even seemingly small avenues to improve support for the MDI community through rethinking terminology, restructuring outreach, and innovating education resources (FDIC, 2019). In our comment, we rethink terms and definitions used in the policy, as well as provide new ideas to support the FDIC's outreach and education efforts. Each section includes our analysis as well as our recommendations in hopes of contributing to positive change.

Clarifying Terminology and Definitions

The Federal Deposit Insurance Corporation's (FDIC) proposal to revise its policy statement regarding Minority Depository Institutions (MDI) includes the intent to clarify the definitions of terms central to the policy statement, and also requests comments on the definitions of technical assistance (FDIC 2020, Policy). We will be commenting specifically on the term and definition of "technical assistance." The FDIC must pay close attention to the importance of defining terms to not only positively capture the attention of MDI executives but also invite them to utilize FDIC resources and services. For example, the proposed policy states, "Technical Assistance and other [program] engagements [were not meant to be used] as a supervisory activity [or add] additional regulatory burdens [to MDI executives]" (FDIC 2020, Policy). The inclusion of such clarifying language implies confusion around the definition of "technical assistance." This lack of clarity could cause reluctance by MDI executives to access FDIC resources, effectively rendering ineffective many tools developed by the FDIC for their support. Therefore, language and definitions matter in terms of program impact.

To overcome definitional misunderstandings, we recommend utilizing the term "professional consultation" in place of "technical assistance" to emphasize the intent to provide positive interactions and working relationships between FDIC caseworkers and MDI executives. "Professional consultation" effectively encapsulates FDICs' services while strengthening the FDIC's intent to develop relationships between MDI executives and FDIC representatives, not establish supervision. Moreover, employing "professional consultation" instead of "technical assistance" could accelerate FDICs' program use by removing the impression that requesting professional assistance impacts an MDIs performance evaluation.

Additionally, the FDIC must also recognize that diversity is more than race, ethnicity, and individual demographic composition but should also include gender. Broadening the meaning of "minority" to include women would ensure women take part in key decisions regarding the future. The benefits found in expanding the definition of "minority" to include women is twofold. First, by recognizing that women have something unique to offer in male-dominated industries, the FDIC will significantly increase their ability to preserve minority depository institutions because of new and innovative ideas and leadership styles that women bring to the table.

Second, allowing women to participate in minority depository institutions' leadership will serve as a financial stabilizing force for these institutions. And will also help MDIs attain long-term economic viability and self-Sustainability. To ensure MDIs become inclusive of women in their leadership, we recommend that the FDIC stipulate for organizations to earn MDI status, "They must have at least a minimum of two women on their executive leadership board."

In short, we have discussed the importance of the FDIC having clearly defined terms to drive resource usage, drive effective interactions, and maximize MDI growth to meet the needs of demographic diverse communities. Therefore, we recommend the following changes to terminology in the updated policy to help sustain the FDICs' efforts to promote, support, and preserve MDIs' existence:

1. Consider replacing the term “technical assistance” with "professional consultation" to reflect positive interactions and working relationships with MDI executives.
2. Consider including women in the definition of “minority.”

Rethinking Outreach to Minority Depository Institutions

In response to the invitation to identify and provide outreach methods to benefit MDIs as a comment on their new policy, we submit the following. Outreach to established MDIs is beneficial, even essential when considering potential collaborations between institutions, but outreach to new or “pre” MDIs may be even more crucial at this point. Supporting the MDI creation process is so crucial that the 1989 statute states one of the main goals of the FDIC is to “promote and encourage *the creation of* new minority depository institutions” (FDIC 2019, Preservation, emphasis added). The outreach programming focuses on established institutions and includes a process for new institutions. However, outreach regarding the creation of new institutions isn’t obviously in place. This is important to note because there has been a net decrease in the number of MDIs due to mergers and institution failures, possibly indicating a need for support in creating new institutions (FDIC 2019, Preservation).

The effect of the 2008 financial crisis on MDIs was brutal. “Leading up to the 2008 financial crisis, the number of MDIs increased from 164 to 215 before declining to 149 as of December 31, 2018. The number of African American MDIs declined by more than half during this period. African American MDIs represented 15 percent of all MDIs at year-end 2018, compared with almost 30 percent of all MDIs in 2001” (FDIC, 2019, Minority). Obviously, the merging of many MDIs would (and did) shrink the number of MDIs across the country. Such mergers can strengthen the participating institutions and the communities they serve, as stated by the president and CEO of Broadway Federal Bank, Kent A. Bradshaw, in the press release announcing Broadway’s merger just last August with City First Bank. “‘The new combined institution will strengthen our position and will help drive both sustainable economic growth and societal returns,’ said Mr. Bradshaw. ‘We envision building stronger profitability and creating a multiplier effect of capital availability for our customers and for the communities we serve.’” However, considering that “the share of loans and number of borrowers in the census tracts declined between 2011 and 2016" even though "more than three-fourths of the assets of the merged institutions and 86 percent of the assets of the failed institutions remained with MDI institutions," the FDIC may need to increase their outreach to promote the creation of new institutions while the other, more mature institutions are growing and merging. FDIC Chairman McWilliams commented in June 2019 at the Interagency MDI Conference that the agency is cognizant of the gradual declining numbers of MDIs and reiterated the agency's request for suggestions how to better support MDIs (FDIC, 2020, Minority).

Many of the recent strategies designed to strengthen outreach to current MDIs are powerful. Beginning in late 2019, the FDIC:

1. Hosted three roundtables for MDIs and other financial institutions to nurture interactive relationships in the financial industry: one in Chicago, one in New York, and one in Atlanta (FDIC, 2019, Preservation).
2. "Established a new MDI Subcommittee of the Advisory Committee on Community Banking (CBAC), which held its inaugural meeting in December 2019" (FDIC, 2019, Preservation).
3. "Hosted three workshops and three webinars with MDI bankers to discuss the failed bank bidding process and special marketing procedures for MDIs" (FDIC, 2019, Preservation).

All of these efforts are essential and should be continued because, as FDIC Chairman Jelena McWilliams stated during the New York roundtable: "Collaborative partnerships among large banks and MDIs are critically important, not only for individual insured institutions, but also for their communities and the vitality of the overall financial system" (FDIC, 2020, Minority). In the 2019 impact study on MDIs conducted by the FDIC, "MDIs tend to serve communities in which a higher share of the population lives in LMI census tracts and a higher share of residents are minorities, compared with non-MDI metro nonfarm community banks." Furthermore, they are more effective than non-MDI metro nonfarm community banks at extending loans and mortgages to minority groups.

All the above listed initiatives focus on strengthening established institutions--in fact, the entire report to Congress on MDIs focused on strengthening established institutions, ignoring the commitment the FDIC made to "promote and encourage creation of new minority depository institutions" (FDIC, 2019, Preservation). Fortunately, the strategies initiated in support of established institutions can be used as a template to fulfill the mandate to promote and support the creation of new institutions.

A basic economic principle crucial to promoting a competitive marketplace, and therefore crucial to promoting and encouraging the creation of minority institutions, is access to perfect information (Browning, 2020). In the age of the internet, the tools available online to entrepreneurs greatly expanded the impact of this principle, but that is not reflected in the current FDIC website. Design plays an important role in communicating information, and the FDIC website is woefully outdated in design, organization, and user accessibility. On the FDIC's homepage, there are two icons directing the public to pages about MDIs, but the current FDIC website for MDIs is obviously tailored to new and established MDIs, with no obvious resource for the inquisitive entrepreneur.

Aside from technological outreach, the FDIC has regional coordinators located in Atlanta, Chicago, Dallas, Kansas City, New York, San Francisco, and Washington D.C. (FDIC 2020, Policy). "MDIs are geographically linked to the communities they seek to serve. MDI headquarters are concentrated in metropolitan areas: 85 percent of MDI headquarters offices are located in one of the nation's 392 metropolitan statistical areas (MSAs). The remaining 15 percent are located in 19 nonmetropolitan areas" (FDIC, 2019, Minority). Evaluating whether this number and dispersion of coordinators is sufficient for the future trajectory of the MDI industry may be important if we are to maximize the effectiveness of the coordinator system, especially regarding the needs of minorities in rural areas.

The proposed rule change to the Statement of Policy Regarding Minority Depository Institutions has the potential to decide the trajectory of the FDIC's work with MDIs of all statuses. It is essential that the word "outreach" affect the FDIC's organizational structure to accommodate the resources required to support the banks and those seeking to enter the market. With innovative outreach design, from organization structure to technological tools, it is possible to multiply the number, stability, and impact of MDIs, especially among minority communities. There will be costs associated with the adjustments, of course, from the additional caseworker personnel that may be needed to evaluate the systems and to support emerging MDIs, to the tech expansion needed for necessary improvements to support MDIs in less centralized metropolitan and rural areas. The possible impact will include a more widespread network of successful MDIs, spreading the benefits to all institutions, current and future, as they support each other.

In short, the FDIC should consider the following recommendations in improving outreach for new and established MDIs:

1. Expand the events organized for MDIs. Currently, the FDIC has launched an initiative to connect large financial institutions with MDIs through roundtables. We recommend each region host an annual informational event to encourage the entry of new MDIs into the market.
2. Increase the accessibility of caseworkers currently employed by establishing a system to reach out to MDIs and those in the process of creating new MDIs. In addition, consider adding caseworkers at each regional center or reevaluating the distribution of regional centers across the country and adding additional hubs. Review the demographic distribution changes from the 2020 census (with necessary adjustments required due to possible collection interference from the COVID-19 pandemic) and reassess the capacity of various metropolitan and rural areas to support MDIs, and identify areas that could significantly benefit from their presence.
3. Update MDI research regarding rural areas. Most of the accessible research on the impact and success of MDIs centers around major metropolitan areas. Rural America struggles with poverty, and if viable, could benefit from the specialties of MDIs.

4. Change the approach to technical outreach by updating the website as a hub of information and interaction. Website organization should be overhauled with the different users in mind--entrepreneurs, new MDI managers, growing MDIs, and faltering MDIs. The use of multimedia tools will strengthen the FDIC's ability to strengthen the MDIs at all stages. Some tools may include videos (recorded webinars, instructional step-by-step videos, origin stories, etc.), infographics, a member portal to access caseworkers and network with other MDI professionals, self-assessments, case studies, a calendar for events, and downloadable manuals and toolkits. Possibly consider the use of an app for members to access these resources on the go.

Updating Educational Programming

Within the proposed rule change to the Statement of Policy Regarding Minority Depository Institutions, the FDIC requests input on updating educational programming. This comment will center on changes imperative to the success of the agency's main educational programs: The Director's College Program, Virtual Technical Assistance Video Program, and Community Banking Initiatives. In order to understand what each program lacks, we will briefly contextualize what each of the programs is currently accomplishing.

Educational programming is a significant part of the FDIC's ongoing effort to "encourage, assist, and preserve" minority depository institutions as outlined in the 308th section of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FDIC, 2020, Policy). Three main programs and initiatives that the FDIC currently employs include the Director's College Program, the Virtual Technical Assistance Video Program, and Community Banking Initiatives (FDIC, 2020, Minority). The Director's College Program currently emphasizes providing MDIs with both coursework and information sessions in coordination with state banking departments and other trade groups in the private sector. The Virtual Technical Assistance Video Program is composed primarily of educational videos designed to educate MDI bank directors, officers, and other employees about supervisory and regulatory changes made by the FDIC. The third FDIC educational program, The Community Banking Initiative, is focused on providing local banks around the United States with knowledge about "community bank business models, key regulatory developments, opportunities and challenges in managing technology, and ownership structure and succession planning" (FDIC, 2020, Community).

Each of these three FDIC educational programs is fundamentally set up to help MDIs navigate difficult financial terrain. The main flaw lies not in the programs themselves but in how the programs are advertised. If MDIs want to learn more about obtaining assistance from the FDIC, many have a difficult time finding program information. One of the few places to find it is on the FDIC webpage. However, while each program is named somewhere on the FDIC website, much information is outdated and or missing. In addition, many pages on the FDIC website for these programs are difficult to navigate and links often fail to work properly, particularly with the Director's College Program (FDIC, 2020, College). For FDIC educational programming to be successful in helping MDIs, it needs to be easily accessible to the MDIs.

A second potential flaw within the structure of current FDIC educational programming is its overemphasis on conferences. While hosting multiple educational conferences each year does provide MDIs with the opportunities to ask questions, network with other MDIs to find solutions to their problems, and learn how to take advantage of FDIC resources, a sole focus on conferences tends to lead to underdeveloped educational materials outside of conferences. In order for MDIs to thoroughly educate themselves on FDIC programming, they need materials that they can access 24/7, rather than conferences available only a few times per year (and are even less available during natural disasters such as the COVID-19 pandemic).

There are two critical changes we recommend to improve educational programming for MDIs.

1. Improve marketing capabilities of the educational programs and services.
    a. *Website:* To market educational programming more effectively, the FDIC should update its website to be more user friendly. Initial steps may include updating the videos and links already found on the website as well as providing more information on each of the different educational programs currently offered.
    b. *Social Media:* Additionally, seek to increase marketing on social media platforms such as Facebook, Instagram, and Twitter. While the FDIC does have a presence on each of these social platforms, the overall presence is modest. The FDIC Instagram, for example, barely has 1,000 followers. To increase the number of MDIs participating in the current educational programming, market the opportunities on social media platforms so more MDIs will know to sign up. Frequent posting is crucial to fruitful engagement.

Increasing marketing capabilities of educational programming benefits the FDIC, MDIs, and investors. First off, increasing marketing capabilities will lead to a direct increase in the FDIC budget due to content development and platform updating. The more MDIs know about the FDIC educational programs, the more they will sign up for conferences, look at the FDIC website, and utilize FDIC programming. An increase in program marketing will thus increase MDI awareness and enrollment in FDIC programming. Increased marketing will also give MDI professionals informal opportunities to connect online.

Other stakeholders that will benefit from increased marketing are MDI investors. Those who want to invest in MDIs, but do not know how or where to do so, will be better informed about where MDIs are located near them and how to best invest in these local MDIs. Overall, more people will invest in MDIs if they see more information about them being posted through social media marketing. Increased marketing capabilities via the FDIC website and social media platforms is a “win win win” for all major parties involved.

2. Produce more substantial educational materials such as brochures, handbooks, and apps.

Conferences are helpful but limited in accessibility. Now that robust conferences are an established norm of FDIC support for MDIs, developing other educational tools will help MDI leadership reinforce program principles and support MDIs after the conferences are over. With educational materials such as brochures, handbooks, and apps, MDIs can find solutions to their problems rather than waiting to attend conferences or schedule meetings with FDIC employees. MDIs would also be able to see the exact steps, in a consolidated format, that they need to take to structure their institutions to avoid crises.

In addition, creating an FDIC program handbook that explicitly outlines the Director's College Program, the Virtual Technical Assistance Video Program, and the Community Banking Initiatives available to MDIs would particularly help new MDIs who may lack resources to access these programs in person. Ultimately, creating more substantial online-accessible educational program materials, especially an FDIC handbook, would allow MDIs to supplement the knowledge they attain at conferences and provide them with more in depth answers to important questions they might have but not be able to ask at conferences. While the creation of an FDIC handbook could potentially lower conference enrollments somewhat, the primary aim of the FDIC is not to create conferences, but rather to resolve questions and concerns that MDI's have. A handbook will better clarify best practices that MDIs need to follow to thrive more than a conference would because more information could be included in a large handbook than could possibly be shared at a conference.

Producing more substantial programming related materials would benefit the FDIC, MDIs, and MDI clientele. Creating an FDIC handbook, brochures, and an app would greatly improve the quality of MDIs by providing them with access to much more information on how they should be set up and continue to operate properly. The materials (particularly handbooks) could build trust because they increase information and transparency. The creation of FDIC materials would thus help the FDIC gain credibility and build trust amongst MDIs. They would also help MDIs be more credible with their clientele. When clientele visibly see an MDI improve its structure and organization, they and others will continue to want to invest in the establishment. Programming materials will thus be a benefit to all major stakeholders involved.

Conclusion

Ultimately, we believe the FDIC is on a positive trajectory to support and encourage the creation of Minority Depository Institutions (MDIs). By using clarified terms, expanding outreach, and modernizing educational resources, MDIs large and small, new and established, will benefit. The FDIC must modernize the tools and systems to maximize program impact.

If you have any questions about our comment, please do not hesitate to contact any member of our team:

Emilee Pugh Bell
[redacted]

Shekinah Kahongo
[redacted]

Thomas Stuart
[redacted]

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