Attachment 3

RESOURCE GUIDE FOR COLLABORATION WITH MINORITY DEPOSITORY INSTITUTIONS

Minority depository institutions (MDIs)[1] play a vital role in the U.S. economy by providing responsive banking services to those who might not otherwise have access to a financial institution. MDIs tend to maintain offices in underserved communities which often have a higher concentration of low- or moderate-income (LMI) census tracts and a higher share of minority populations. In addition, MDIs tend to originate a greater proportion of their mortgages to borrowers who live in LMI census tracts and to minority borrowers compared to non-MDI institutions.[2]

Insured depository institutions, whether an MDI or non-MDI, may realize business and regulatory benefits from partnering and forming collaborative relationships with MDIs. MDIs often have a better understanding of the economic development needs of underserved areas. At the same time, MDIs are sometimes challenged in providing a full spectrum of banking services to their communities due to the MDIs' size and limited resources. A partnership or collaborative relationship can create opportunities for non-MDI banks to offer additional capacities to MDIs in a multitude of mutually beneficial areas. These efforts can also provide MDIs' communities with access to a wider variety of services and improve operational efficiencies.

Collaboration among MDIs, or between MDIs and non-MDIs, can result in sound and profitable lending and investments that meet the needs of underserved communities. In addition, institutions engaging in such collaboration and partnerships may receive Community Reinvestment Act (CRA) consideration for such activities.[3]

Examples of Collaboration With and Among MDIs

There are a variety of activities regarding which non-MDIs and other MDIs may collaborate with an MDI. These activities could include, but are not limited to, the following:

- Direct investment in an MDI;
- Loan participations, other lending arrangements, and sharing of loan servicing;
- Sharing of bank staff and other resources; and
- Information networking.

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[1]The three federal banking agencies have separate definitions of MDI. FDIC defines "minority depository institution" as any federally insured depository institution where 51 percent or more of the voting stock is owned by minority individuals. In addition to institutions that meet the FDIC's ownership test, institutions will be considered minority depository institutions if a majority of the board of directors is minority and the community that the institution serves is predominantly minority.

[2]"Minority Depository Institutions: Structure, Performance, and Social Impact" FDIC Quarterly, Vol. 8, No. 3, 2014, pp. 55-59.

[3]Refer to the Federal Financial Institution Examinations Council CRA questions and answers available at https://www.ffiec.gov/cra/qnadoc.htm, FDIC FIL-77-2016 (November 15, 2016) "Banker Teleconference Series: Webinar on Recently Revised Interagency Questions and Answers Regarding Community Reinvestment" available at https://www.fdic.gov/news/news/financial/2016/fil16077.html.

Direct Investment in an MDI

Non-MDIs or other MDIs may place deposits directly with an MDI, make a direct capital investment in an MDI, or participate in a fund that makes direct investments in an MDI.

Loan Participations, Other Lending Arrangements, and Sharing of Loan Servicing[4]

MDIs can collaborate with other MDIs or non-MDIs through loan participations. This collaboration or partnership allows for larger loan transactions, originated either by the MDI or the other participating non-MDIs. In addition, this collaboration can allow for the MDIs to access special resources and unique skill sets of other financial institutions. Further, these transactions can provide opportunities for diversifying the loan portfolio, enhancing liquidity and interest rate risk management, and serving the credit needs of a wider range of customers.

MDIs may form a partnership, such as through a lending consortium, or form a Community Development Financial Institution (CDFI)[5], a loan fund, or other entity that provides mortgages to members of the MDIs' communities. In some circumstances, a group of financial institutions may be allowed to acquire interests in a special purpose entity (SPE), such as a limited liability corporation, established specifically to manage and dispose of troubled loans or other real estate owned. Each financial institution is a member/owner of the SPE, holding an interest equivalent to the value of the assets it conveyed to the SPE. They also retain control over the assets and maintain the same level of risk as before the exchange. However, by pooling troubled assets, such SPEs may reduce maintenance costs through economies of scale and make bulk sales of troubled assets more feasible.

Sharing of Bank Staff and Other Resources[6]

Several larger financial institutions have forged partnerships with smaller MDIs so that automated teller machine fees are waived for customers of the MDI, thereby increasing access to the MDI customers' funds. Other collaborations may include the sharing of specialized staff members, teams, or consultants to assist with back-office operations requiring special skill sets, such as internal audit, asset valuations, or managing problem assets.

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[4]See FDIC FIL-44-2008, Guidance for Managing Third-Party Risk (June 6, 2008), available at https://fdic.gov/news/news/financial/2008/fil08044.html; FDIC FIL-49-2015, Advisory on Effective Risk Management Practices for Purchased Loans and Purchased Loan Participations (November 6, 2015), available at https://www.fdic.gov/news/news/financial/2015/fil15049.html; and refer to the FDIC website "Regulatory Guidance: Risk Management Supervision Outsourcing and Third-Party Providers (Vendor Management)" at https://www.fdic.gov/regulations/resources/director/risk/it-tpp.html.

[5]A CDFI is an institution that provides credit and financial services to underserved markets and populations. CDFIs can be banks, credit unions, loan funds, microloan funds, or venture capital providers.

[6]Ibid. 5

Information Networking

Trade associations that focus on unbanked and under-banked consumers provide training and information on the availability of MDI investment opportunities. MDIs participate in these types of trade organizations, which provide a forum for their members to exchange ideas, address issues of common concern, enhance understanding and compliance with new regulations, promote community outreach, and educate investors of opportunities.

Benefits of Community Banks Partnering With MDIs

Community banks in particular can benefit from partnerships with MDIs for strategic business purposes, including the ability to:

- Serve bank customers that neither institution could serve alone;
- Reduce operating and compliance costs by sharing back-office operations and specialized expertise; and
- Jointly purchase goods and services at reduced costs.

By collaborating with each other or with non-MDI banks, institutions may be able to achieve a variety of benefits, including increasing the ability to acquire and support current technology, conserving capital for other strategic business opportunities, and, more generally, improving the quality and reducing the costs of products and services.

Opportunities for CRA Consideration

In general, all financial institutions will receive consideration for activities that benefit geographies or individuals located within their geographically designated assessment area(s), or somewhere within a broader statewide or regional area that includes the institution's assessment area(s) even if they will not benefit the institution's assessment area(s), as long as the institution has been responsive to community development needs and opportunities in its assessment area(s). This is available whether partnering with an MDI or not, and is also available to partnerships between MDIs. If a non-minority owned institution wishes to reach beyond these geographic restrictions, additional CRA-eligible opportunities exist when financial institutions partner with minority or women-owned financial institutions or low-income credit unions (MWLI).[7] The activities do not need to benefit the non-minority owned financial institution's assessment area(s); however, they must help meet the credit needs of the local communities in which the MWLI is chartered.

Examples of activities with MWLIs that may receive consideration when financial institutions reach

[7] The CRA statute and regulation uses the phrase "minority- or women-owned financial institutions and low-income credit unions." 12 U.S.C. 2903(b); 12 CFR 345.21(f).

beyond the normal geographic restrictions listed above are:

- Making a deposit or capital investment in the MWLI;
- Purchasing or selling a participation in a loan in the MWLI's market area;
- Loaning an officer or providing other technical expertise to help an MWLI improve its lending policies and practices; and
- Providing free or discounted data processing systems or office facilities to help an MWLI serve its customers.[8]

Further, the CRA statute specifically provides that the regulators can consider in any CRA evaluation the amount of a contribution, or loss incurred, by any financial institution that donates, sells on favorable terms, or makes available on a rent-free basis to any MDI one of its branches located in a predominantly minority neighborhood.[9] In this case, the statute refers to "minority depository institutions," but the definition is narrower than the definitions generally used by the banking regulators. To be considered a minority depository institution for purposes of this provision, more than 50 percent of the ownership or control of the institution must be held by one or more minority individuals and more than 50 percent of the net profit or loss must accrue to one or more minority individuals.

Community Development Lending

Financial institutions may receive CRA consideration for loans made directly to an MWLI that primarily lends or facilitates lending to promote community development.[10] Additionally, they may also receive CRA consideration by purchasing a participation in a community development loan made by an MWLI. Loan participations can allow financial institutions to originate larger loans because other banks agree to purchase participations in these loan transactions. Alternatively, an MWLI could receive CRA consideration for purchasing a participation in a larger community development loan made by another institution, if they lack the size or expertise to originate such a loan. Geographic restrictions discussed earlier would apply in both scenarios.

Investments in MWLIs

Consideration is also given for "qualified investments" in an MWLI that has a primary purpose of community development, provided geographic requirements are met.[11]

In addition, consideration is given when providing grants that allow MWLIs to undertake community development activities, such as financial counseling or financial literacy training targeted to LMI individuals.

[8]"Community Reinvestment Act; Interagency Questions and Answers Regarding Community Reinvestment" (Questions and Answers), 81 Fed. Reg. 48506, 48535-36, Q&A __.21(f)–1 (July 25, 2016).

[9]Refer to 12 USC §2907(a).

[10]See Questions and Answers, 81 Fed. Reg. 48528- 29, Q&A __.12(h) – 1.

[11]See Questions and Answers, 81 Fed. Reg. 48532- 33, Q&A __.12(t) – 4. Any investment by a bank must comply with all relevant laws related to such investments.

Community Development Services Provided to MWLIs

Financial institutions may receive CRA consideration for providing technical assistance or other community development services to MWLIs that have a primary purpose of community development and meet the geographic restrictions discussed above.

Examples of community development services include:

- Helping with marketing financial services, including development of advertising or promotions, publications, or workshops;
- Furnishing financial services training for staff and management; and
- Contributing accounting or bookkeeping services.[12]

A financial institution also could receive consideration for donating staff and support to an MWLI to enable the institution to provide community development services. Such services include "credit counseling, home buyer and home maintenance counseling, financial planning, or other financial services education to promote community development and affordable housing, including credit counseling to assist low- or moderate-income borrowers in avoiding foreclosure on their homes."[13]

Finding MDI Partners for Collaboration

In keeping with the spirit of Section 308 of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), the FDIC maintains close communication with MDIs regarding MDI programs and initiatives. As such, the FDIC is aware of potential collaboration opportunities with MDIs and can provide options for exploring a collaborative relationship. Additionally, the FDIC can assist in vetting collaboration proposals for which institutions desire to obtain CRA credit. Institutions interested in pursuing collaborative relationships with MDIs may contact the National MDI Director, Regional Directors, Regional MDI Coordinators, or Regional Community Affairs Specialists.

A listing of Regional MDI Coordinators may be found at: https://www.fdic.gov/regulations/resources/minority/contact.html

A listing of Regional Community Affairs contacts may be found at: https://www.fdic.gov/consumers/community/offices.html

Institutions may also pursue such collaboration opportunities directly. A listing of MDIs may be found at: https://www.fdic.gov/regulations/resources/minority/MDI.html

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[12] See Questions and Answers, 81 Fed. Reg. 48530- 31, Q&A __.12(i) – 3.

[13] Ibid.