Investing in the Future of Mission-Driven Banks

A Guide to Facilitating New Partnerships

Executive Summary

Federal Deposit Insurance Corporation (FDIC)-insured Minority Depository Institutions (MDIs) and Community Development Financial Institution (CDFI) banks are banks, savings banks, and savings associations (collectively, banks) that serve minority, low- or moderate-income (LMI), and rural communities at higher rates than mainstream banks. Such banks are commonly known as "mission-driven banks" because they play a role in transforming the lives of underserved citizens and communities by making loans and providing other vital banking products and services. Mission-driven banks also provide safe and affordable financial services to residents and businesses in these communities.

Many mission-driven banks are small, and building capacity and scale are critical to growing their operations and expanding services to their communities. The FDIC regularly creates opportunities for MDIs and CDFI banks to build partnerships with other banks or private companies for financial support, lending, and other services, including technical assistance.

Grants, equity investments, the creation of an investment fund, deposits, and technology support are a few direct ways that private companies or philanthropic organizations can partner with these institutions. Each method of support will have different implementation timeframes, impacts, and potential regulatory or legal requirements. Each mission-driven bank has different needs and may prefer a mix of these strategies based on its unique business model, strategic plan, history, culture, and financial condition.

Aggregate capital for the 247 MDIs and CDFI banks insured by the FDIC is less than $40 billion, so a few million dollars of support at any one institution can have an enormous impact on its operations and the communities it serves. Every dollar of equity capital invested can increase lending by a multiple of the original investment. Every dollar of deposits can only increase lending up to the amount of the deposit.

Depending on the amount of capital the bank's federal supervisory agency requires it to hold, the lending multiple for equity capital investments could be significant, between eight and ten in many circumstances. Grants and other investments may also qualify for matching funds in existing support programs, and partnerships between private companies, philanthropic organizations, or other banks can greatly expand the investment from the original partner.