AN EXAMINATION OF REGULATORS' EFFORTS TO PRESERVE AND PROMOTE MINORITY DEPOSITORY INSTITUTIONS

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SUBCOMMITTEE ON CONSUMER PROTECTION AND FINANCIAL INSTITUTIONS

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AN EXAMINATION OF REGULATORS' EFFORTS TO PRESERVE AND PROMOTE MINORITY DEPOSITORY INSTITUTIONS

Wednesday, November 20, 2019

U.S. House of Representatives,
Subcommittee on Consumer Protection
and Financial Institutions,
Committee on Financial Services,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:04 a.m., in room 2128, Rayburn House Office Building, Hon. Gregory W. Meeks [chairman of the subcommittee] presiding.

Members present: Representatives Meeks, Scott, Foster, Lawson, Tlaib; Luetkemeyer, Barr, Tipton, Williams, Loudermilk, Kustoff, and Riggleman.

Ex officio present: Representative Waters.

Chairman Meeks. The Subcommittee on Consumer Protection and Financial Institutions will come to order. Without objection, the Chair is authorized to declare a recess of the subcommittee at any time. Also, without objection, members of the full Financial Services Committee who are not members of this subcommittee are authorized to participate in today's hearing.

Today's hearing is entitled, "An Examination of Regulators' Efforts to Preserve and Promote Minority Depository Institutions."

I now recognize myself for 4 minutes to give an opening statement.

To my good friend, Ranking Member Luetkemeyer, and the members of the subcommittee, welcome to this hearing on the examination of regulators' efforts to preserve and promote Minority Depository Institutions (MDIs). This hearing follows our October 22nd hearing during which we heard the testimony of small minority banks giving a voice to the challenges of these small community banks which overwhelming serve minority communities, typically low-income communities, that are underbanked, and that data shows continue to suffer from financial services discrimination.

We welcome today a panel of witnesses from each of the principal banking regulators with oversight of the nation's banks and credit unions. Section 308 of FIRREA (the Financial Institutions Reform, Recovery, and Enforcement Act of 1989) establishes several goals for prudential regulators as it relates to MDIs. These include to preserve the present number of Minority Depository Institutions, preserve the minority character in cases of merger or acquisition, provide technical assistance to prevent insolvency of institutions not now insolvent, promote and encourage creation of new Minority Depository Institutions, and provide for training, technical assistance, and educational programs.

Despite this mandate, the number of MDIs has fallen from 215 banks in 2008 to fewer than 150 today. According to the FDIC, following the financial crises, MDI banks were 2½ times more likely to fail than other banks. Today, MDIs represent 2.8 percent of the FDIC's insured banking charters and 1.3 percent of assets, while minority credit unions represent 10 percent of total credit unions, and 87 percent of minority credit unions report fewer than $100 million in assets, and 58 percent report fewer than $10 million in assets, being credit unions built around churches, community centers, et cetera.

So whether credit unions or depository institutions, because of their small size and as a perverse burden for their focus on underserved minority communities that are often discriminated against, MDIs struggle to attract capital, recruit talent, mobilize deposits, invest in technology, and scale. MDIs play an important role in our communities. MDIs are important to the very fabric of the banking landscape, and I want to hear from the regulators today what they are doing to fulfill their mission, and also hear what they are doing or what more should be done to increase the number of de novo minority banks.

Finally, the Treasury Department and other government agencies have an important role to play in utilizing MDIs for deposits and partnering with them on local projects. I am finalizing legislation to address the core challenges faced by minority banks and banks that serve the unbanked and underbanked poor.

I look forward to the testimony of our witnesses here today, and to working with my colleagues on both sides of the aisle to move legislation that addresses these urgent needs. I now recognize the ranking member of the subcommittee, Mr. Luetkemeyer, for 5 minutes for an opening statement.

Mr. LUETKEMEYER. Thank you, Chairman Meeks, and especially for holding this important hearing.

Today marks the second hearing in this subcommittee on Minority Depository Institutions (MDIs). In the previous hearing, we got a firsthand look from minority institutions describing the health of MDIs across the country and burdens they face on a day-to-day basis. Many of the issues brought up by the witness panel mirror what we are seeing for community banks across the country. These concerns include the lack of de novo institutions, additional regulatory burdens, and competition with larger institutions, particularly with evolving technologies. However, MDIs do serve a different role than many community banks.

MDIs are often exceptionally small and predominantly serve their immediate communities. In addition, MDIs often serve low-income communities with a higher underbanked and unbanked population. I look forward to hearing from the witnesses regarding what the regulators are doing to combat some of the issues we see with minority institutions.

That being said, there is a glaring absence from the panel today. At a hearing focused on the preservation of Minority Depository Institutions, the committee appears to be, once again, ignoring what each of our witnesses just a few weeks ago acknowledged as an imminent threat to MDIs and the financial system as a whole: the Financial Accounting Standards Board's (FASB's) new accounting standard, Current Expected Credit Losses (CECL).

Representatives from multiple MDIs echoed industrywide concerns regarding CECL. One witness called CECL, "a tremendous regulatory burden and compliance cost." Another witness said CECL, "costs money and time." And yet another witness said, "If we have to adhere to CECL, it would create even more pressure for institutions."

Although FASB is not by law a regulator, they do create accounting standards enforced by regulators across the financial services industry which affect our economy and our citizens. They, in my judgment, should appear in front of this committee and defend those standards.

In 2008, as the chairman just stated, the number of MDI banks peaked at 215. In the second quarter of 2019, in the wake of the financial crisis Dodd-Frank Act regulatory burdens, that number is now 148, a decrease of almost a third. Furthermore, MDI credit unions have declined by more than one-third since 2013.

It is clear these institutions cannot withstand more unnecessary burdens. Small institutions do not have the ability to raise capital in the way larger institutions can. In order to raise capital, they would be forced to increase the cost of a loan, disproportionately impacting the low- to moderate-income (LMI) consumers they serve. This is particularly troubling for Minority Depository Institutions specializing in serving LMI consumers within their community.

I believe the Center for Responsible Lending is accurate when they called for delaying implementation of CECL, and said, "CECL creates a significant disincentive for lenders to originate loans to low- and moderate-income families and communities of color."

In October, I introduced an amendment in a markup in this committee that would force FASB to regularly appear before Congress to discuss their impact on depository institutions in our economy. However, my colleagues on this side of the aisle unanimously defeated this amendment. It is unfathomable to me that the committee is not demanding that FASB explain why it is enacting an accounting standard disproportionately impacting low- and moderate-income consumers and minorities, particularly when it is the focus of this hearing. It is unfathomable to me in hearing after hearing, that this committee, which is focusing on low- to moderate-income individuals, has yet to have a hearing on CECL and have FASB explain itself to us.

These witnesses who are here today represent the regulators that would be responsible for implementing this standard. In addition, the Financial Institutions Reform, Recovery, and Enforcement Act, FIRREA, established goals for certain regulators to preserve and promote minority financial institutions. Given the amount of concern we have heard from minority institutions, I look forward to questioning you on what your respective agencies are doing to protect these institutions from this terrible accounting standard and other threats.

With that, Mr. Chairman, I yield back.

Chairman MEEKS. The gentleman yields back.

The Chair now recognizes the distinguished Chair of the full Committee on Financial Services, the gentlelady from California, the Honorable Maxine Waters, for 1 minute.

Chairwoman WATERS. Thank you very much, Mr. Chairman. I am so pleased that you are holding this hearing today. This is an issue that you and I and others have been working on for a long time.

Minority Depository Institutions play a vital role in serving low- to moderate-income and underbanked communities. However, we have been losing far too many MDIs over the past decade, especially Black-owned banks. Since 2008, the number of Black-owned banks has decreased by more than 50 percent. Just this month, we saw yet another Black-owned bank forced to close its doors, leaving the total number of Black-owned banks in this country at just 18.

This is a crisis, and regulators have failed to live up to their statutory obligations to preserve and promote MDIs. I look forward to discussing the tools available to regulators so that this committee can immediately address this crisis and pass legislation that is needed to help MDIs, both existing and hopefully, new ones, better serve their communities.

So I thank you so very much, and I look forward to working with you on this issue.

Chairman MEEKS. Thank you.

Today, we welcome the testimony of some distinguished witnesses. First, Ms. Beverly Cole, who is a Deputy Comptroller for the Northeastern District, and designated Federal Officer for the Minority Depository Institutions Advisory Committee, Office of the Comptroller of the Currency. Ms. Cole oversees more than 200 community banks and Federal savings associations, 15 independent data service providers, and 6 independent national trust companies. She manages a staff of more than 350 bank examiners and other professionals and support personnel located in the northeastern district in my beloved City of New York, as well as in Massachusetts, New Jersey, North Carolina, Pennsylvania, Virginia, and Washington, D.C. She was appointed to this position in August of 2019.

Ms. Cole is also the designated Federal Officer for the OCC's Minority Depository Institution Advisory Committee, and Ms. Cole started her OCC career in 1979. During her career at the OCC, Ms. Cole has served in a variety of supervision roles overseeing banks in all sizes.

Second, Ms. Betty Rudolph, who is the National Director for MDIs and CDFIs, for the Federal Deposit Insurance Corporation (FDIC). Ms. Rudolph was appointed as the Federal Deposit Insurance Corporation's National Director for Minority and Community Development Banking in April of 2018. In this role, she leads the FDIC's efforts to preserve and promote the work and the important mission of Minority Depository Institutions (MDIs) and Community Development Financial Institutions (CDFIs) in serving their communities.

Ms. Rudolph most recently served as the Assistant Director in the Division of Risk Management Supervision, and since 2012, as part of her portfolio, she served as Program Manager for Minority and Community Development Banking. Ms. Rudolph's FDIC experience of nearly 30 years includes serving in a number of executive, managerial, and special advisory roles.

Third, Mr. Arthur Lindo, who is the Deputy Director in the Division of Supervision and Regulation at the Board of Governors of the Federal Reserve System. Mr. Lindo is the Senior Associate Director for Policy in the Federal Reserve Board's Division of Supervision and Regulation. His principal responsibilities include the development and assessment of the effectiveness of board regulations and policy matters affecting the domestic financial services sector. He also advises the Board on emerging policy matters that have implications for the supervision and regulation of the global financial services sector.

He serves on the operating committee for the Board's Large Institutions Supervision Coordinating Committee, and the oversight committee for the Board's Partnership for Progress program. He is the Chairman of the Appraisal Subcommittee of the Federal Financial Institutions Examination Council (FFIEC), the Chairman of the FFIEC's Task Force on Supervision, and is a member of the G-7 Cyber Expert Group.

And last, but not least, Ms. Martha Ninichuk, who is the Director of the Office of Credit Union Resources and Expansion for the National Credit Union Administration (NCUA). And with more than 25 years of credit union experience, Ms. Ninichuk held a number of leadership positions in both the United States and international credit union systems. She joined the NCUA in April of 2012 as a Deputy Director of the then-Office of Small Credit Union Initiatives.

Prior to joining the NCUA, she worked at the Michigan Credit Union League, the Maryland and D.C. Credit Union Association, and the World Council of Credit Unions. She is also the manager of St. Cletus Credit Union, a small, faith-based institution located in Warren, Michigan.

The witnesses are reminded that your oral testimony will be limited to 5 minutes. And without objection, your written statements will be made a part of the record.

Ms. Cole, you are now recognized for 5 minutes to give an oral presentation of your testimony.

STATEMENT OF BEVERLY COLE, DEPUTY COMPTROLLER FOR THE NORTHEASTERN DISTRICT AND DESIGNATED FEDERAL OFFICER (DFO) FOR THE MINORITY DEPOSITORY INSTITUTIONS ADVISORY COMMITTEE (MDIAC), OFFICE OF THE COMPTROLLER OF THE CURRENCY (OCC)

Ms. COLE. Chairman Meeks, Ranking Member Luetkemeyer, and members of the subcommittee, I am Beverly Cole, Deputy Comptroller for the Northeastern District and designated Federal Officer for the OCC's Minority Depository Institutions Advisory Committee. I am responsible for coordinating activities across the OCC to promote the health and vitality of OCC-supervised Minority Depository Institutions.

I am pleased to appear today to discuss the OCC's efforts to preserve and promote Minority Depository Institutions. In my 37 years at the OCC, I have seen firsthand the valuable contributions MDIs provide to the communities they serve and to the Federal banking system overall. Today, the OCC supervises 47 minority and women-owned institutions. We supervise 20 MDIs owned by Asian Americans or Pacific Islanders, 7 owned by Hispanic Americans, 5 owned by African Americans, and 3 are Native-American or Alaska Native-owned.

Uniquely, the OCC includes women-owned institutions in our MDI definition, and 12 of our MDIs are women-owned. OCC-supervised MDIs are located in 19 States with combined assets of $17.1 billion. These banks range in asset size from $46 million to over $2 billion. More than 75 percent have assets of $500 million or less.

MDIs play unique roles in their communities and frequently serve populations who are underserved by the mainstream banking sector. Immigrants who face language and cultural challenges, Indian Country, which may be subject to banking deserts, and historically underserved urban and rural areas are just a few examples. We believe MDIs are uniquely positioned to create positive change in the communities they serve.

The OCC is engaged in a range of activities to preserve MDIs, consistent with the agency's mission of ensuring a safe and sound Federal banking system and providing fair treatment and fair access to customers.

In addition to the technical assistance our subject matter experts provide to MDIs, the OCC chartered an MDI advisory committee in 2012. The advisory committee provides a forum to discuss the condition of MDIs and regulatory changes affecting them. One outcome of our advisory committee dialogue has been the creation of a dedicated and successful bank collaboration program.

In April 2016, the OCC hosted its first collaboration event, which included a group of OCC-supervised MDIs and majority-owned midsized banks to facilitate relationship-building and information-sharing. That initial meeting led to successful partnerships. These collaborations can provide MDIs access to expertise, technology, and financial services and products to further serve their communities that the MDIs would not be able to access on their own.

The most common form of collaboration has involved MDIs receiving deposits from larger institutions that provide a stable funding source, but has also resulted in equity investments and technical assistance, including training, support for new product development, and assistance with compliance programs. The larger banks also report business benefits from these transactions. To date, we have hosted 12 regional collaboration roundtables, and additional roundtables are scheduled for next year.

The OCC has been deliberate in communicating that the primary focus of these engagements is to build a long-standing, mutually beneficial business relationship. The success of these collaborations is based on a sense of mutual trust resulting in more sustainable and beneficial partnerships. My written statement provides more detail on our collaboration initiative and the range of technical assistance, training, and outreach activities we provide to MDIs.

I would like to close by recognizing Chairman Meeks' draft legislation, the Ensuring Diversity in Community Banking Act of 2019, and applaud the chairman for his leadership in this area. The OCC is pleased to see the range of ideas reflected in the bill, and we look forward to working with the subcommittee as the bill proceeds through the legislative process.

Thank you, and I look forward to answering your questions.

[The prepared statement of Deputy Comptroller Cole can be found on page 34 of the appendix.]

Chairman MEEKS. Ms. Rudolph, you are now recognized for 5 minutes.

STATEMENT OF BETTY J. RUDOLPH, NATIONAL DIRECTOR FOR MDIs AND CDFIs, FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC)

Ms. RUDOLPH. Chairman Meeks, Ranking Member Luetkemeyer, and members of the subcommittee, the FDIC appreciates the opportunity to testify today on our efforts to preserve and promote Minority Depository Institutions. I serve as the FDIC's National Director for Minority and Community Development Banking, managing MDI programs across the FDIC. Support for the program starts at the top. Chairman McWilliams set a goal to increase our engagement with and support for MDIs. We appointed additional minority bankers to our advisory committee on community banking and created a new MDI subcommittee that holds its first meeting in 2 weeks.

We publish a research study exploring changes in the MDI industry. From 2001 up to the 2008 crisis, the number of MDIs increased from 164 to 214, before declining to 149 as of year-end 2018. The number of African-American MDIs declined by more than half during this period, from 48 in 2001, to 23 at the end of 2018. This year, one merged with a nonminority institution and another recently failed, reducing the number to 21. The number of Native American, Hispanic, and Asian MDIs increased. Overall, MDIs declined more modestly compared to the banking industry consolidation overall.

MDI's financial performance has improved over the past 5 years. In 2019, the number of profitable MDIs increased to its highest level since before the crisis, but the percentage of unprofitable MDIs is significantly higher compared to the industry overall. Unprofitable MDIs are generally smaller institutions and located in economically distressed areas.

MDIs are vital service providers for minority and low- to moderate-income populations, which have higher percentages of unbanked households than other groups. MDIs originate a greater percentage of home mortgages and Small Business Administration loans to these borrowers than non-MDIs.

The FDIC Board of Directors adopted a policy statement to guide the agency's efforts to support MDIs, and we are currently updating the policy to strengthen our commitment. The FDIC also carries out an active program of regular outreach, technical assistance, and training and education. In 2018, we provided technical assistance 149 times upon request. In 2019, we held six roundtables and hosted an interagency conference. Topics discussed at these events include the new current expected credit losses accounting methodology, Bank Secrecy Act compliance, cybersecurity, and innovation.

We aim to build financial capacity and MDI expertise by promoting collaboration within the broader banking industry. In June, we welcomed 10 large banks and 7 MDIs to a roundtable in Washington to discuss potential partnerships. Following the roundtable, several large banks expressed an eagerness to begin working with MDIs. We held similar events in Atlanta and Chicago this year, and plan to host additional events next year.

To support our goal to preserve the minority character of an MDI in the event of failure, MDI bankers asked for additional training, and over the past year, we have hosted several workshops to share information about the bidding process and provide one-on-one technical assistance. We also updated our process for marketing failing MDIs. At the start of a new marketing initiative, we now provide a 2-week window exclusively for MDIs to review bid information before other banks. We successfully used this approach to preserve the minority character for the MDI that failed earlier this month.

Another initiative is to facilitate MDI participation and economic revitalization in the Opportunity Zones created by the 2017 tax law. Nearly 31 percent of MDI branches are located in Opportunity Zones compared to less than 15 percent for non-MDIs. MDIs can partner with investors and others, offering debt financing to complement revitalization projects. MDIs know these communities and can broker projects with investment funds and help to structure transactions. We recently drafted a paper outlining these roles and developed a website to serve as a clearinghouse of useful information for banks, investors, and opportunity fund managers. We will launch the site in January.

In conclusion, many MDIs face challenges from the evolving financial services landscape. As a supervisor of two-thirds of all MDIs, the FDIC is committed to promoting and sustaining the vibrant role these banks play in their communities. Increasing our engagement with MDIs helps us to understand their unique needs and provide tools and resources so they can help create jobs, grow small business, and build wealth in their communities.

Thank you for the opportunity to testify today, and I look forward to answering your questions.

[The prepared statement of Director Rudolph can be found on page 63 of the appendix.]

Chairman MEEKS. Mr. Lindo, you are now recognized for 5 minutes.

STATEMENT OF ARTHUR LINDO, DEPUTY DIRECTOR, DIVISION OF SUPERVISION AND REGULATION, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM (FEDERAL RESERVE OR FED)

Mr. LINDO. Thank you, Chairman Meeks, Ranking Member Luetkemeyer, and members of the subcommittee. I appreciate the opportunity to be here today to discuss the Federal Reserve's program to preserve and promote Minority Depository Institutions.

The Federal Reserve's Partnership for Progress (P for P) program was created in 2008 in recognition of the importance of MDIs. The P for P works to preserve and promote these institutions, and recognizes the challenges inherent in providing access to credit and other financial services in traditionally underserved areas. We support an inclusive financial system.

At the Board of Governors, the P for P program is jointly overseen by the Division of Supervision and Regulation and the Division of Consumer and Community Affairs. This joint management allows us to pair our community banking expertise with our community development expertise to most effectively support MDIs and help them fulfill their missions and address the challenges facing their communities. This unique arrangement leverages the creativity of the outreach of community development programs and our forward-looking approach to supervision.

In addition, each of the 12 Federal Reserve Banks has a designated P for P coordinator, whom we communicate with regularly and who provides technical assistance to the MDIs in their district to fulfill the mission of the P for P program.

The Federal Reserve has primary supervisory responsibility for 15 State member MDIs. We provide a full range of technical assistance and outreach to our regulated MDIs through the P for P, but we also view our congressional mandate in Section 308 of FIRREA to preserve and promote MDIs as more than simply supervising these institutions. In this regard, we work with our colleagues at the other agencies with Section 308 responsibilities to ensure a coordinated approach in support of all MDIs. In addition, we are able to leverage the many resources available to us as the central bank of the United States to support MDIs consistent with the goals of the P for P program.

First, as you know, the Federal Reserve is a research-driven institution, and we have engaged the internal and external stakeholders on a range of research to enhance our understanding of the business models of MDIs and how they serve their communities.

Second, Federal Reserve leadership, including Board Members and Reserve Bank Presidents, has spoken publicly about the importance and positive impact of MDIs in our underserved communities. The Board also publishes an annual report on MDIs, which is included in my written testimony.

Third, through the tremendous convening power of the Federal Reserve, we have been able to bring together individuals and institutions to form partnerships that will assist the MDI sector. For example, in August of 2018, we hosted a meeting of Native American financial institutions on the Flatland Reservation in Montana. This meeting provided an opportunity for Native American banks, credit unions, and Community Development Financial Institutions to talk about how to better serve their communities.

Moreover, this month, we collaborated with the FDIC to host a roundtable in Chicago for MDIs and larger financial institutions to discuss partnerships that could be mutually beneficial to both types of institutions. We continue to seek creative ways to address the range of concerns we hear from our MDIs, such as the challenge to attract and retain talent at all levels of their organizations. For example, this September, the Federal Reserve hosted its fourth annual forum for minorities in banking, which is a leadership gathering for minorities at any banking institutions, not just specific MDIs. The forum is designed to provide minority bank leaders with industry leadership and professional development resources that will enhance their careers and networks. We had 171 attendees this year and the agenda included items such as the history of America's first Black banks, inclusive leadership, cybersecurity, the housing market, and our P for P program.

We also know that it is important for leadership at the Board to hear directly from MDIs. Therefore, starting in 2018, the Board began hosting a biennial MDI leadership forum where executives of our supervised MDIs are invited to meet with Federal Reserve governors and senior staff in Washington, D.C. In 2018, they provided fairly frank perspectives in a meeting with Vice Chair for Supervision Randal Quarles on their concerns.

Finally, at the Federal Reserve, we make every effort to ensure that MDIs are taken into consideration when we are formulating regulatory and supervisory policy. Staff from our Supervision and Consumer Divisions provide insights to Federal Reserve leadership, staff, and examiners about the unique attributes and contributions of MDIs so that we can tailor regulatory and supervisory frameworks where it is appropriate to do so.

In summary, the Federal Reserve remains strongly committed to identifying and carrying through on all opportunities to support MDIs.

I would like to thank you for inviting me to testify today, and I look forward to your questions.

[The prepared statement of Deputy Director Lindo can be found on page 47 of the appendix.]

Chairman MEEKS. Thank you.

Ms. Ninichuk, you are now recognized for 5 minutes.

STATEMENT OF MARTHA NINICHUK, DIRECTOR OF THE OFFICE OF CREDIT UNION RESOURCES AND EXPANSION (CURE), NATIONAL CREDIT UNION ADMINISTRATION (NCUA)

Ms. NINICHUK. Good morning. Chairman Meeks, Ranking Member Luetkemeyer, and members of the subcommittee, as the Director of the National Credit Union Administration's Office of Credit Union Resources and Expansion, also known as CURE, thank you for inviting me today to testify about the state of Minority Depository Institution credit unions and NCUA's efforts to support them.

The CURE office, which I lead, is responsible for administering the MDI Preservation Program. We offer support services to foster credit union development with a particular focus on low-income credit unions and MDIs. Credit unions are, by design, different from other financial institutions. They are member-owned and controlled, not-for-profit cooperative entities. Their boards of directors are compromised entirely of volunteers. Their central mission is to give groups of people access to affordable financial services and the ability to participate in their institution's management. MDI credit unions, more specifically, serve the financial needs of racial minorities because such populations traditionally have been underserved by the financial system.

Today, I will summarize my written testimony by first discussing the state of MDI credit unions before turning to NCUA's initiatives to assist and preserve them.

As of June 30, 2019, there are 526 federally-insured MDI credit unions, representing approximately 10 percent of all federally-insured credit unions. MDI credit unions tend to be smaller institutions, which by NCUA's definition, is less than $100 million in assets. In fact, 87 percent of MDIs report total assets of $100 million or less, with 58 percent of all MDI credit unions having less than $10 million in assets. These credit unions are generally located in church, factory, and even home office locations. As with many of the smallest credit unions, a number of MDI credit unions are run and staffed by volunteers.

In 2018, mergers accounted for 62 percent of the decrease in the number of MDI credit unions. The merging MDI credit unions cited four primary reasons for their merger: their desire to offer expanded services to their members; poor financial condition; inability to attract leadership; and finally, lack of growth.

In 2015, in an effort to support MDI credit unions, the agency created the MDI Preservation Program. Through this program, we provide assistance in a variety of ways. NCUA examiners in the field and CURE office staff provide ongoing assistance to MDIs by working directly with them, sharing their knowledge of the credit union system and best practices, coordinating mentor relationships between large and small credit unions, and generally acting as a knowledgeable point of contact and resource.

Earlier this year, the NCUA created a new pilot mentoring program for small, low-income MDI credit unions. The purpose of the program is to encourage stronger and more experienced credit unions to provide technical assistance to small MDI credit unions, such as building staff capacity through training, improvements to credit union operations, and assistance with modernization processes.

Access to training is another aspect that is important to the preservation of MDIs. The NCUA offers an online training portal that is available at no cost. Training topics are relevant to the challenges faced by MDIs, including high-impact community partnerships, serving the credit invisible, and strategies for providing digital services. Additionally, the NCUA administers a grant and loan program to low-income credit unions, and it is important to note that 80 percent of MDI credit unions are designated as low income.

As NCUA looks to strengthen the MDI credit unions, it is important to note that the designation as an MDI credit union is voluntary and does not bestow specific benefits. A credit union may qualify for the MDI designation but may not have chosen to seek it. On the other hand, credit unions seek the low-income designation, because by statute, it confers a number of benefits, such as access to secondary capital and the ability to accept non-member deposits.

The NCUA is committed to doing everything it can to help MDI credit unions continue to grow and thrive. As you consider further legislation of initiatives in this area, please keep in mind the unique structure of credit unions, a number of which have volunteer staff and are among the smallest of all financial institutions.

Thank you for this opportunity today, and I look forward to your questions.

[The prepared statement of Director Ninichuk can be found on page 53 of the appendix.]

Chairman MEEKS. Thank you. Thank you all for your testimony.

I now recognize myself for 5 minutes for questions.

Before I get into my direct questions, I have to get something off my chest, which is very important to me. And I have to raise this once again, because I have serious concerns about the collective agency's work on CRA modernization. I have been very vocal at every opportunity possible about the critical importance of a serious, thorough approach to CRA modernization that is very specifically focused on outcomes for the communities for which CRA legislation was first drafted.

Discrimination in banking is a very real problem. Banking deserts are growing, and the legacy of redlining continues to hold back minority communities across the country, including in districts like mine where there was a big expose in the local newspaper. I was, frankly, disappointed to read, once again, that the OCC is abandoning the interagency process and looking to go it alone on CRA modernization.

CRA is a priority for me and this committee, and I discussed it at great length with your respective agencies, with civil rights groups and consumer advocacy groups, and with banks. There is a strong alignment among them all that the best approach is one where the regulators move together.

The banks are not asking for a dilution of CRA, yet the OCC appears obstinate on meeting some manufactured deadline, forcing a process and going it alone, if necessary, and is not fully internalizing the comprehensive feedback received from the Advance Notice of Proposed Rulemaking (ANPR). This is wrong and will not achieve a good outcome and risks creating an unlevel playing field and a regulatory arbitrage.

So I am going to urge you, once again, to work together, to listen to Congress, to civil rights groups, and community advocacy organizations before moving forward with any new CRA rulemaking.

My other problem is we have all talked here already about the number of MDIs that are out of business, and I don't feel a sense of urgency from the regulators as to what to do to save them. And I listened to all of your resumes. You have been working for a long period of time.

I don't understand, and I guess I will direct this to you, Ms. Cole, in the time that you have been with the OCC, why there aren't there more de novo minority banks? Where is the creativity and initiativity? Are you helping some of these banks get the capital that is needed? Is there an opportunity where you are putting people together in a roundtable? What creativity is happening with the regulators so that we can make sure that we save these banks? Because what is happening is, where these communities are being further victimized, because obviously somebody is banking in there and, generally, it is the payday loaners and other folks who come in, who give these products that are ripping off many of the folks in these communities.

So can you tell me what is being done, how it is being done that we are going to—what effort, what creativity is being put forward so that we can make sure that we are not losing more MDIs in these underserved communities that desperately need financial services? Ms. Cole?

Ms. COLE. I will say that, for OCC, what we did was, once we chartered our MDI advisory committee, we have used that committee to hear from the MDIs themselves about what their needs are. And in that, one of the things that we realized was, one of the big things that they said is they wanted the larger institutions at the table.

Chairman MEEKS. So is there a program that put the larger institutions at the table? What are you doing?

Ms. COLE. That is our collaboration initiative. Because what we realized was that the minority bankers and the bankers from larger institutions did not necessarily know each other. And so, while they might be successful from time to time in getting a transaction done, it was one and done, but not a continuing relationship.

We wanted to establish something where they got to know each other and could talk, collaborate, and work together so—

Chairman MEEKS. Can you show me an example where that has succeeded, where you put them together?

Ms. COLE. Yes. I won't name particular names, but we have had instances where some of the larger institutions—one institution in particular has opened up its ATM network free of charge to all of the minority institutions' customers. We have had another institution where their executive management team got together and took a look from a strategic standpoint of what they could do to help minority institutions.

Chairman MEEKS. Thank you. I am out of time, so I will get back to you on this.

Ms. COLE. Oh, I'm sorry.

Chairman MEEKS. I am out of time.

I now recognize the distinguished ranking member, Mr. Luetkemeyer, for 5 minutes for questions.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

I am going to center most of my questions, as you probably guessed from my opening testimony, with regards to CECL. I think this is a paramount issue that we need to be discussing, especially when you are talking about low- and moderate-income folks here, especially because all of you are regulators and you have to enforce this rule. This is going to be front and center for you for the next several years, and so I want to get some comments from you.

Ms. Rudolph, in 2018, the FDIC ombudsman annual report conducted outreach visits to 472 industry stakeholders: banks; trade associations; and state banking authorities. In those outreach visits, many stakeholders listed constructive criticism of the FDIC and listed areas of concern. The number one area of concern in this report was regulatory issues, and the number one regulatory issue was CECL.

Do you find similar feedback with regards to your outreach to MDIs?

Ms. RUDOLPH. Yes. We do an extensive outreach program with MDIs, and CECL is one of the issues we hear them speak about. The FDIC is bound to follow FASB rules. I know our Chairman has said that we are open if FASB changes their approach and if Congress takes action, but what we have done is significant training. And in 2020, when the rule rolls out for more larger institutions, we are studying the best practices and issues that come up with that so we can apply them when the rule applies to community banks in 2023.

Mr. LUETKEMEYER. Okay. The FDIC published this report, the Minority Depository Institutions Structure, Performance, and Social Impact report back in June. According to your testimony, this study demonstrates the essential role that MDIs play in serving LMI customers and minority customers.

Given this finding, are you concerned about the statement from the Center for Responsible Lending that CECL will make institutions less inclined to lend to LMI and minority communities?

Ms. RUDOLPH. I think that regulatory challenges are always top of mind for MDIs, and I believe that we are prepared to work with institutions to provide technical assistance and training to comply with—

Mr. LUETKEMEYER. Let me ask this question, because I don't know that we are getting to the heart of it here, and your answers are not getting where I want to go here. Do you think CECL is going to impact low- and moderate-income communities, and communities of color in a negative way?

Ms. RUDOLPH. I think CECL will impact all communities, all bankers, all communities, yes.

Mr. LUETKEMEYER. Okay. Do you think it is going to impact small banks more than larger banks?

Ms. RUDOLPH. I think smaller banks definitely have challenges when it comes to rules like CECL.

Mr. LUETKEMEYER. Okay. So, let's go further. If it is a small bank, they have less income streams to be able to offset the required additional capital, and they are going to have to put in a reserve, is that correct? Would you agree with that?

Ms. RUDOLPH. Yes.

Mr. LUETKEMEYER. So if their income streams are restricted, where are they going to have to go to get the additional income, do you think?

Let me help you. I am going to guess they are going to increase the cost of a loan. What do you think?

Ms. RUDOLPH. So—

Mr. LUETKEMEYER. It is a yes-or-no question, ma'am.

Ms. RUDOLPH. I am not prepared to answer that question today.

Mr. LUETKEMEYER. Oh, my gosh. Okay.

Ms. Ninichuk, you represent the credit unions, and you just said 80 percent of credit unions are designated low income.

Ms. NINICHUK. Correct.

Mr. LUETKEMEYER. To me, CECL is going to hit right square in the middle of your institutions. This is going to be devastating to your business model.

I have in my possession a study from one of the trade associations that shows that the credit union folks are going to have to figure out how to come up with $14 billion in additional capital to be able to afford to implement CECL. Are you concerned about that?

Ms. NINICHUK. Yes. If I were a small MDI credit union, I would be very concerned about that. As an agency with NCUA, even though I am not a CECL expert, the agency is concerned about the impact CECL will have on net worth as well as operational expenses, costs.

Mr. LUETKEMEYER. Okay. It is very concerning. I have asked two questions of individuals here, and they are not really versed on CECL, and yet you guys are going to be enforcing this rule very shortly on big banks. There is a delay, of course, on small banks.

When are you going to get trained on this to understand what is going on? Do you have any training in mind? Have you had any training at all?

Ms. NINICHUK. We have an entire division, Examinations and Insurance, that is fully up-to-speed on CECL.

Mr. LUETKEMEYER. You don't represent the regulator today that is doing this?

Ms. NINICHUK. I represent MDIs and their credit union resources and expansion that provides outreach and support—

Mr. LUETKEMEYER. The number one issue that MDIs have, as well as all small banks and small credit unions, is CECL, and you guys aren't up-to-speed on that. That is concerning.

I yield back.

Chairman MEEKS. The gentleman's time has expired.

I now recognized the distinguished chairwoman of the full Financial Services Committee, the gentlelady from California, the Honorable Maxine Waters.

Chairwoman WATERS. Thank you very much, Mr. Meeks.

Let me just say to the panel, if you are wondering about our frustration, it is because this issue has plagued us for so long, and we are watching the Black banks, in particular, that are literally going out of business to the point where—I said 18, but the other day, I heard 16.

So how many Black banks have gone out of business since you have been working on this issue, Ms. Cole?

Ms. COLE. I don't have that exact number.

Chairwoman WATERS. Ms. Rudolph?

Will each witness right down the row answer for me, how many Black banks have gone out of business since you have been working on the issue?

Ms. RUDOLPH. Twenty-seven.

Chairwoman WATERS. I beg your pardon?

Ms. RUDOLPH. Twenty-seven.

Chairwoman WATERS. Twenty-seven.

Okay. Next?

Mr. LINDO. Sorry. That is about right. We went from 43 overall to about 23 recently.

Chairwoman WATERS. Next?

Ms. NINICHUK. I don't have the racial breakdown, but we lose about 30 MDI credit unions a year.

Chairwoman WATERS. As I look through your testimony and I listen to you talk about efforts that you have made one way or the other, mostly technical assistance. You talked about partnerships, et cetera.

When this meeting took place with the big banks and the MDIs, how many big banks did you have present? Ms. Cole?

Ms. COLE. Yes.

Chairwoman WATERS. All of you were involved in that, is that right? FDIC?

Ms. RUDOLPH. Yes. We had an initiative as well.

Chairwoman WATERS. How many big banks?

Ms. RUDOLPH. We invited 31 and 29 showed up.

Chairwoman WATERS. What about Ms. Cole?

Ms. COLE. We had 20 mid-sized institutions and another 7 larger institutions.

Chairwoman WATERS. When you invite the big banks to come, are you aware of all of their lines of business? Do you know what lines of business your big banks have?

Ms. COLE. Yes.

Chairwoman WATERS. Any of you, please?

Ms. RUDOLPH. Yes, we do.

Chairwoman WATERS. Okay. Give me an example.

Ms. COLE. Commercial lending, is that what you are talking about?

Chairwoman WATERS. I don't care what it is, line of business.

Ms. COLE. Small business. Investments.

Chairwoman WATERS. Investments? Do they have any investments in Black banks?

Ms. COLE. Some do.

Chairwoman WATERS. Who?

Ms. COLE. I can't name specific institutions.

Chairwoman WATERS. Can anybody name an institution, a large bank that is invested as a line of business in a Black bank?

Ms. COLE. Oh, sorry. Not invested as a—not a line of business. I didn't mean to say that they have a line of business where they specifically invest—

Chairwoman WATERS. No, I am really, really trying to get to investments. Because this is all about money. This is about access to capital in order to stay alive. So tell me what you have done on the issue of putting big banks and MDIs together to talk about investing in those banks.

Ms. COLE. From an OCC standpoint, what we did was we brought the institutions together and let the MDIs tell the other institutions what they needed. The larger institutions were conversing on what they had available. In addition to that—

Chairwoman WATERS. All right. That is good, Ms. Cole.

Ms. Rudolph?

Ms. RUDOLPH. Yes. We actually had the large banks fill out a questionnaire before they came to the roundtable—

Chairwoman WATERS. Did any of those banks that you had in that meeting commit to investments in Black banks, for example?

Ms. RUDOLPH. This was a start-up partnership—

Chairwoman WATERS. Okay. That is a startup. Nothing happened.

Mr. Lindo?

Mr. LINDO. Chairwoman Waters, what I would point out is that when a large bank invests in one of these MDIs or any other community bank, there is a ramification for that in their capital calculation. So because the amount of capital in the regulatory system is maintained in such a way, an investment by one bank in another bank kind of gets reduced from the banks' perspective that made the contribution. That is a structural issue.

Chairwoman WATERS. That is okay. Whatever the issue is, I am trying to find out what you know about the possibility of capital being available, because that is what it is all about. They go out of business because they don't have capital.

Who can tell me that you know that the work that you have done has encouraged in any way the investment in minority banks, Black banks in particular?

Mr. LINDO. Can I answer that? You may know a woman by the name of Kim Saunders, and she has been developing a partnership type of arrangement, more like a mutual fund, where entities can invest in that, and then those funds would be invested directly into MDIs. That is one we have been working on for a while. The biggest impediment there was getting through our—

Chairwoman WATERS. My time is up. Let me just conclude by saying, you need to get to work on capital. You need to get to work on encouraging big banks to invest in small banks. Until you do that, your technical assistance, your conferences, and your papers that you write mean nothing.

I yield back.

Chairman MEEKS. The gentlelady's time has expired.

The Chair now recognizes the gentleman from Texas, Mr. Williams, for 5 minutes.

Mr. WILLIAMS. Thank you, Mr. Chairman.

I wasn't going to mention this, but I do want to say something. I want to support my colleague, Mr. Luetkemeyer. I am a small business owner back in Texas, and I have a real concern when I hear the comments today about supporting this untested manner of accounting that I will tell you will directly affect Main Street employment and the economy. So I hope you were listening, as you were asked to please understand what you are doing and the damage it could cause.

During the first part of this hearing back in October, I asked one of the witnesses about the potential negative consequences of Section 1071 of Dodd-Frank. As a refresher, Section 1071, of course, requires the CFPB to undergo a rulemaking on the collection of small business lending data similar to the way HMDA collects mortgage data on borrowers.

My concern, which is shared by many industry participants, is that this type of data collection will increase the cost of credit to small businesses, again, Main Street America, and will not transmit meaningful data since these two types of loans are fundamentally different. Because mortgages are much more standardized at 90 percent of being 30-year fixed, and there is a uniform residential application that every borrower receives, the data gathered can expose bias in the mortgage market. Small business loans, however, are much less consistent from loan to loan, and data would not transmit an accurate picture of the small business lending space.

In the October hearing, witness Jill Sung of the Abacus Federal Savings Bank, stated that HMDA reporting requirements take up to 3 months of the lending season and that implementing a similar process would be even more difficult for small business lending. This difficulty would lead to a heavier compliance burden on institutions, which we have many now, that will ultimately raise the cost of credit for businesses and it does trickle down to consumers.

So my question is to you, Ms. Cole. Do you share Ms. Sung's concerns that she expressed back in October that Section 1071 could negatively impact small business lending from community institutions and MDIs?

Ms. COLE. I think what our experience has been with banks collectively is that many of them have smaller—they have software systems or packages that help them in the collection of that data that is relatively inexpensive. Some institutions do have resource-intensive processes that their management team has chosen to implement.

Mr. WILLIAMS. More regulations requires more compliance officers and loan officers, and that is a real problem.

The banking industry has experienced a lot of changes over the past 30 years, and there have been significant technological advancements, new business models, and regulatory changes within the industry. As a way to adapt to the times, banks can now utilize third parties to help develop their user interfaces, deliver mobile apps, offer rewards and incentive programs, and market their capabilities to their communities.

Ms. Rudolph, can you talk about the effects of third-party partnerships within the MDI and community banking space?

Ms. RUDOLPH. Yes. Minority banks, similar to community banks, can benefit from third-party relationships to deliver products and services, including technology partners. At the FDIC, our Chairman has taken a very proactive stance on innovation in the banking industry, and she has announced the creation of an FDIC technology organization that will help community banks experiment, including MDIs, with new products and technologies, including by third-party providers, looking at some of the regulatory uncertainty that might surround those, and working together to find solutions. We are seeking a Chief Innovation Officer now to lead that organization.

Mr. WILLIAMS. Okay. Thank you for that.

I believe that modernizing the broker deposit rules will have a great impact on the ability for smaller institutions to compete against larger competitors. Just this week, the American Bankers Association (ABA) sent a letter to Chairman Meeks that stated a fundamental role of banks is to provide financial services, including deposit taking, lending, access to payment systems, wealth management, trust and custody services, and cash management services. Modern technology also allows banks to offer these services, gather stable deposits, and obtain access to potential depositors via new mechanisms. Going forward, it is imperative that Section 29 be restructured to accommodate these advances in banking, and ensure that banks are not penalized for engaging in practices that are well within the bounds of their normal course of business and traditional consumer relationships.

I could not agree more with the ABA's comments. I hope that the broker deposit rules can be updated, either legislatively through this committee, or through agency action at the FDIC. We want Main Street America to stay strong. They stay strong when the banks are able to do business with them.

I yield back the balance of my time.

Chairman MEEKS. The gentleman yields back the balance of his time.

The Chair now recognizes the gentleman from Georgia, Mr. Scott, for 5 minutes.

Mr. SCOTT. Thank you, Mr. Chairman. And, again, I congratulate you on really bringing forth this very timely hearing.

I am very concerned, and I want you all to understand the power that you have. I want you to understand, and to understand very thoughtfully, that we have to save these African-American-owned banks. In order to do that, we have to look at this the same way that Franklin Delano Roosevelt looked at the nation when we went into the Depression, because these communities are in a depression.

Now, we have to use all of you as the point of the spear in saving these African-American banks. It's very vital, because you have the power. You are the regulators of our banking system.

If we know, for example, how many banks are failing, and you said, 27, that is a terrible indictment on all of you. You all should have been up here hollering a long time ago about what is happening in the African-American community.

These folks who are registered as unbanked and underbanked—you all gave us the numbers: 8.9 million unbanked households in this country. Which means, if you know how many there are, you know who they are, and you know where they are. And an alarm bell should have been rung. Well, this committee is ringing the alarm bell now.

But you are the regulators. So why not entertain—and let's be bold. You all have the big banks, and we talked about that. You bring the big banks in with the smaller banks, and then, if one can't make the meeting, the other—no. We need to establish joint ventures and give these very large banks who say they are concerned about helping the capitalization of our African-American-banks—okay. Let's do some joint ventures here.

And we are doing everything we can to address the reasons why, but we have to get some incentives going within the banking industry right now. Let me ask you this. From a standpoint of, we know that these banks in the African-American community have a big problem in establishing their capital structure. Now, could you all tell us, what unique hurdles do we have in raising capital for the African-American banks? What are they?

Can we start with you, Mr. Lindo?

Mr. LINDO. Thank you.

The biggest impediment is, in fact, what they would turn around and invest that in. The communities that you are talking about, communities such as the African-American community, we are under, as you know, economic pressure in those environments, where the money might come in but it might not stay for a long period of time. We had Black Lives Matter for a matter of minutes, effectively. Money came in through the deposit network, but it went right back out the door.

Mr. SCOTT. Why?

Mr. LINDO. Because in terms of the stickiness of those types of deposits and investments, if you will, the Black Lives Matter just being one example, the money came in really quickly, but those are low-deposit accounts. So, if a bank gets those, it has a higher cost to maintain that type of account. Those aren't large-dollar accounts that we can actually now go and reinvest into loans in the community.

So, the hot type of money or the money that doesn't stick in the organization is one thing.

The other thing you talked about was capital. Now, that is fundamentally the problem facing African-American banks, whether it comes from large banks, as Chairwoman Waters was saying, or whether it comes through other partnership-type interests, that is where we have to focus on.

Mr. SCOTT. Could we not come up with a way—

Chairman MEEKS. The gentleman's time has expired.

The Chair now recognizes the gentleman from Georgia, Mr. Loudermilk, for 5 minutes.

Mr. LOUDERMILK. Thank you, Mr. Chairman.

Two Georgians back-to-back, and I think it is appropriate, because I am greatly concerned about this issue. And I think it is really good that we have actually had two hearings now on MDIs.

And I want to apologize. I don't know why, but it seems like any hearing that we have today ends up being contentious, even if it is something that we all agree on. So I want to apologize if there has been some stress and tension here today.

One of the concerns I have, being from Georgia, is that we lost more banks than any other State in the financial crisis, and we have been very slow to restore those. The small community bank that I banked with, both personally and my business, has now changed hands 3 times. But we haven't seen an increase of de novo banks, whether MDIs or other banks, especially the small community banks. We still have at least three counties in the State of Georgia that have no bank branch whatsoever.

So the lack of de novo banks is a huge concern in the State of Georgia. And I think Representative Scott was getting to something there, that it is really important to get to the root of the problem if we are going to find a solution, not just address symptoms. And I think Mr. Lindo was getting to one of the issues.

In the previous hearing that we had, I asked, what are the biggest barriers that we face for creating new banks and especially de novo MDIs? And I received three responses from the witnesses there. One, the charter bank application process is very difficult. Again, overregulation. Two, the capital requirements for a de novo bank or credit union are too high. And I think that is what Mr. Lindo was getting at. And, three, compliance with the Bank Secrecy Act and anti-money-laundering requirements is a major challenge. Those are the three areas that we are consistently seeing.

I have a question for each of you, if I can get through it, but I will start with Ms. Rudolph.

I understand that the FDIC is working on ways to assist minorities with starting new banks. How can the de novo bank charter process be streamlined to make it simpler to start a bank?

Ms. RUDOLPH. The FDIC has undertaken a number of initiatives over the past couple of years to make the de novo process simpler.

We reduced the de novo period of heightened supervision a couple of years ago from 7 years to 3 years.

We went out to a number of stakeholders, people interested in forming institutions. We held a number of roundtables around the country to gather their feedback on the process and talk about the difficulties that they had.

In 2017 or 2018, we issued a new handbook, very simple, plain English, explaining the requirements for creating a de novo. And we continued late last year with requesting additional input.

We have delegated responsibility for approving those transactions back to our regions. And we track and have significant accountability over the timetables we have left for our regulators to approve those.

And we have actually started a new process where we encourage organizers to come in with a draft proposal, and we will talk with them about their draft proposal and—

Mr. LOUDERMILK. So you are assisting them, really, in getting—

Ms. RUDOLPH. Providing some consultation. That is right.

Mr. LOUDERMILK. Okay.

Ms. RUDOLPH. And 2 weeks ago, I met with an organizing group for an African-American MDI, and they said that process had been very helpful to them in going through the—

Mr. LOUDERMILK. Okay. I don't want to cut you off, but I want to make sure I get to Mr. Lindo, especially.

Mr. Lindo, the last time that you were here, I believe you testified that, on the capital requirements, we should have a tiered approach, with less capital requirements at the beginning. Is that still your thought, as one of the barriers?

Mr. LINDO. You hit capital on the head. That is a barrier to entry into this industry. The tiering, though, you would have to do it in some sort of way that it doesn't increase risk in the system.

Mr. LOUDERMILK. Right.

Mr. LINDO. And that will be one of the challenges, I think, you—

Mr. LOUDERMILK. Initially, a new bank isn't going to be making huge loans, right? So, the risk is going to be lower in the beginning. Is that kind of the idea of a tiered approach?

Mr. LINDO. The tiering would be based on the fact—when the money comes in, it has to be put to work, correct?

Mr. LOUDERMILK. Right.

Mr. LINDO. And so you are going to make decisions as to what loans you are going to put in. They could be riskier loans if you think about that, or they could be lower-risk investments if you did that. So how do you pair that in terms of risk-tiering, would be the obstacle that you need to address.

Mr. LOUDERMILK. Okay. Thank you.

And I see I am running out of time before I can ask the other two questions, but mostly it is about regulation and the BSA, and I am working to raise those thresholds.

Ms. Ninichuk, really quick, do you think raising the threshold would be helpful?

Chairman MEEKS. The gentleman's time has expired.

Mr. LOUDERMILK. May she respond to the question, Mr. Chairman? It was just a "yes" or "no."

Chairman MEEKS. Go ahead.

Mr. LOUDERMILK. Do you feel that would be appropriate?

Ms. NINICHUK. Yes, I do.

Mr. LOUDERMILK. Okay. Thank you.

Thank you, Mr. Chairman.

Chairman MEEKS. The Chair now recognizes the gentleman from Florida, Mr. Lawson, for 5 minutes.

Mr. LAWSON. Thank you, Mr. Chairman.

And witnesses, welcome to the committee.

Ms. Cole, can you describe the economic state of minority depository institutions from pre-financial-crisis to that of today?

Ms. COLE. I believe the minority depository institutions, African-American institutions in particular, are in an improved state today.

Mr. LAWSON. That is all? Are you finished?

Ms. COLE. Yes.

Mr. LAWSON. Okay.

Mr. Lindo, explain to me or explain to the committee, when you say the deposits don't stay very long and that causes a very big impact on the institution for investment purposes, could you go into a little bit more detail on that?

Mr. LINDO. Certainly, Congressman.

The idea is, some deposits are core deposits or more sticky in nature. They stay with the organization over longer periods of time, and they tend to be higher balance. In minority communities of note, when we have looked at what those deposits looked like, in some cases, they are not as sticky.

I used the Black Lives Matter as just a recent indication of something through social media increased the volume of dollars, if you will, of deposits at minority, Black-owned banks in particular. That shot up, and then it shot right down.

The idea is that, if deposits don't stay, then how do you put the money to work? Because then the institutions have to come up with other means to fund their loans and their other investments. So, that is what I generically meant by that.

Capital, in comparison, is there on a more permanent basis, and that doesn't really come in and out of the institution. That gets reduced by the profitability of the firm, that gets reduced by dividends going out, that sort of thing.

So I just wanted to make the distinction on things that were brought up, like moving certain types of broker deposits in. We call that hot money that comes in, stays a little while, and it moves on. So that was the point I was trying to make.

Mr. LAWSON. Okay.

And anyone can respond to this. With the change in our society and those institutions that are located in minority communities, African-American communities, and with the new trend of all of the, I guess, technology that goes along with the young people who are coming through, how does that affect minority institutions if they haven't adjusted?

And I understand you all have said that you have workshops and so forth to bring them up to date. Because the younger generation, no matter what it is, they want things fast, and they want to do things. And I don't know whether some of these institutions—Ms. Ninichuk, can you comment on that, please?

Ms. NINICHUK. Yes. For MDI credit unions, we realize that some of these institutions have been in their communities for 10, 20, 30 years-plus, and, at the same time, the financial industry has evolved quite considerably, and MDIs, some of them, have not been able to maintain the same momentum.

So what we are finding is that one of the reasons that the credit unions start to have challenges is because they can't offer the electronic services that consumers want at this time, so we see membership leaving these institutions.

Mr. LAWSON. Is there any way that we can bring them up to date so that they can face those challenges? Would anyone like to respond to that?

Ms. COLE. I think the OCC has been helping its MDIs and community banks partner with some of the fintech firms to support their front- and back-room operations and the delivery of new products and services. And we are supportive of that as long as they do it in a safe and sound and responsible manner.

But we do recognize, in talking to our MDI advisory committee members, that is a concern for the MDI population across-the-board and for many community banks, actually.

Mr. LAWSON. Okay.

Ms. Rudolph, do you feel the same way?

Ms. RUDOLPH. Yes, I think partnerships are a good way, and we have been encouraging those partnerships—

Mr. LAWSON. I could hardly hear you. Can you speak up?

Ms. RUDOLPH. I'm sorry. Yes, we do believe that it is important for partnerships to take place. And we have been sponsoring roundtables to bring together larger institutions to partner with MDIs on topics like that.

Mr. LAWSON. Okay.

My time has run out. I yield back, Mr. Chairman.

Chairman MEEKS. The gentleman's time has expired.

The Chair now recognizes the gentleman from Tennessee, Mr. Kustoff, for 5 minutes.

Mr. KUSTOFF. Thank you, Mr. Chairman.

And I thank the witnesses for appearing this morning.

I represent a part of Memphis, Tennessee, which has a historic bank, Tri-State Bank in Memphis, which is an MDI. And as I think about Tri-State and other de novo banks, I want to ask about the issue of compliance, which has been talked about some this morning.

Ms. Cole and Ms. Rudolph, I will direct the first question to you, if I could. And that is, as we hear talk this morning about de novo banks, whether they are MDI, or what-have-you, one concern that we have, or that we are hearing about is the cost of entering the marketplace as it relates to profitability. And with those de novo banks, as they seek to receive their charter, we are also seeing smaller institutions, as you all have talked about this morning, consolidate and merge, frankly, to avoid the onerous regulatory burdens that they are facing. Obviously, that is true for all banks, MDIs, et cetera.

Can you describe, Ms. Cole and Ms. Rudolph, if you could, some of the compliance costs for the MDIs and what they are facing, and how that may limit or inhibit their ability to serve their customers and consumers?

Ms. RUDOLPH. One of the compliance costs you might be speaking of is the Bank Secrecy Act/anti-money-laundering. And the regulators have taken a number of steps over the past year to take a look at that.

We issued a statement last year to encourage institutions to partner on BSA operations on sharing resources and information and technical assistance. And just a couple of months ago, we issued another statement looking at focusing examinations on the risk that those types of compliance would pose to the institution to better tailor the compliance with those regulations to the risk posed by the institution.

Mr. KUSTOFF. Thank you.

Ms. Cole?

Ms. COLE. And I would echo that. In 2015, OCC issued a collaboration paper, and, again, that was in response to concerns that our MDIAC committee had brought forth, as well as our mutual advisory committee, wanting just clarity from the regulator, from us as their regulator, on would we be supportive of those kind of collaborative efforts, where banks could partner their human resources and other resources to fund their operations, as well as look at their compliance platforms. So, that was a primary purpose of that paper.

In addition, our Comptroller has been adamant about leading an effort on the BSA front to make it more risk-focused and hopefully reduce the compliance burden on the BSA/AML front.

Mr. KUSTOFF. Thank you.

Going in a different direction, I would like to talk about the Community Reinvestment Act (CRA). We all know that the CRA was designed to encourage financial institutions to invest in the communities that they serve. And I am certainly interested in that with my part of the district in Memphis.

I know that many financial institutions and MDIs have expressed interest in the effectiveness of the CRA. As we look as a committee and a Congress to modernize the CRA, what specific recommendations would you have that would also benefit the MDIs?

Ms. COLE. From a CRA standpoint, OCC has also been very interested in modernizing the CRA, along with our regulatory partners. And one of the things that—for larger institutions, when they help the MDIs, they get consideration for that in CRA. I think that is important to keep in the forefront.

The other things that we are kind of focused on is clarifying what counts and qualifies, where it counts, and providing some objective measures for it, as well as making the CRA fees more transparent and timely. And I think, at that point, we could look across the industry at any point in time and see how people are really helping their communities or not. And I think bringing more clarity to what counts would hopefully have people invest more because there would be more certainty—

Chairman MEEKS. The gentleman's time has expired.

Ms. COLE. —about the products that they—

Mr. KUSTOFF. Thank you.

Chairman MEEKS. The Chair now recognizes the gentlewoman from Michigan, Ms. Tlaib, for 5 minutes.

Ms. TLAIB. Thank you, Mr. Chairman.

And thank you all so much for being here.

I have these mini-townhalls throughout my district, and, recently, a constituent attended one of my coffee hours, talking about the lack of lending for a community. And she talked about how difficult it was to find lending to fund her small business and the lack of options for communities and all that.

And I think you all know, my district, 13th District Strong, is the third-poorest congressional district in the country. We are probably the frontline community of why MDIs are really critically important. We have lost more Black home ownership than any other State, Michigan has, and are increasingly seeing this movement around development only for some, not those that have been in the community for generations.

And so, just hearing the frustration of Chairwoman Waters and others about your role as regulators but also the responsibility in trying to get the bigger banks to work with some of our what I would call community banks. And I call them community banks because my residents don't know what MDIs are.

I hear, also, some of my colleagues here talking about, what can we do to modernize or, really, to update CRA? Because I do think there are a lot of loopholes there, especially around—and I've seen this over and over again—mortgages being given to people who move into the City of Detroit. They are getting credit for that loan, but it is going to people who are not from communities of color, but they are getting credit for it. And, to me, that has been—I would call it a loophole to gentrification that is happening in a predominantly Black city.

And so I want to hear from you, Ms. Cole, Ms. Rudolph, and Mr. Lindo, a little bit more about how you can see our role in trying to at least adjust the Community Reinvestment Act, which has been a big topic of conversation throughout Michigan, especially southeastern Michigan, and the importance of really trying to put more enforcement or teeth to it and making it as it was originally intended. It came about because of situations that we see now in Michigan.

Mr. LINDO. I will start for once.

First, a few things about the CRA. I think you hear about assessment areas. That has to be defined in such a way as to give the firms that you are talking about the incentives to move the money into those areas that we have been talking about.

The second thing we would think of doing is risk-tiering this. If you are a smaller institution, if you are a minority institution, you shouldn't have to struggle to meet those expectations. There should be some sort of tiering along those lines to get benefits to the smaller institutions that are actually trying to do that.

And the third thing, it should be obviously targeted toward low- and moderate-income people in those areas. And if, in fact, you can do some amendments around those sorts of things, that would be the most important.

Ms. TLAIB. Just for clarification, Mr. Lindo, do you think it should be geographic, or do you think it should be about individuals?

Mr. LINDO. I think the problem with geographic is, if you are not actually in that, if that isn't your footprint and the banker wants to lend in that, you don't get credit for it. So that is what I meant by the geographic element there.

Ms. TLAIB. Anyone else?

Ms. COLE. I would just say that CRA is not a fair-lending regulation and it is not tied to discrimination. It is really more tied to low- to moderate-income individuals collectively.

Ms. TLAIB. Okay.

Ms. Rudolph, what programs do you have in place right now that you can really talk about a little bit more that foster partnerships between MDIs, like Liberty Bank, Independent Bank, and midsized and larger banks? What specific things—and when you say, "technical assistance," just for me—I am new—what does that really mean?

Ms. RUDOLPH. Technical assistance can be anything from, "Can you help me understand this regulation?" to, "Could you take a look at our strategic planning policy? Could you help offer some suggestions?" We can provide advice; we just can't do the work for the institution. But we provide significant technical assistance at the request of an MDI on pretty much any topic that they ask for.

Ms. TLAIB. Ms. Rudolph, the frustration I hear from Chairwoman Waters is that doesn't go far enough in trying to—because it is about capital. And I think Mr. Lindo agreed with that.

Ms. RUDOLPH. Yes.

Ms. TLAIB. So what are we doing just to—

Ms. RUDOLPH. I do want to share about the partnerships that we are encouraging between large banks and MDIs, so—

Ms. TLAIB. How do you encourage them?

Ms. RUDOLPH. So, 2 weeks ago, for example, in Chicago, we had the CEO of the MDI in your area, First Independent Bank, and a number of other MDIs with 10 large banks. And we had the 10 large banks fill out a little survey about financial assistance including direct investment, deposits, lending participations that they could have, and all kinds of expertise, sharing services—

Ms. TLAIB. And then what?

I know my time has run out, Mr. Chairman.

So, after you get there, what happens?

Chairman MEEKS. I can let her finish the answer, but that is it.

Ms. TLAIB. And then I am done, I promise, Mr. Chairman.

Ms. RUDOLPH. We had several MDIs report after the end of that, at the meeting, that they got commitments from institutions for deposit support. But we are following up 90 days after these roundtables to find out what worked, and what barriers there might be. And this is the beginning of building a relationship with these banks. That is what we are encouraging them to do, to build these relationships.

Chairman MEEKS. The gentlelady's time has expired.

The Chair now recognizes the gentleman from Virginia, Mr. Riggleman, for 5 minutes.

Mr. RIGGLEMAN. Thank you, Mr. Chairman.

And thank you to all the witnesses for being here today.

Before I got started, I wanted to look at my district to see how many MDIs there were. So my question might be a little different, because my district is about 10,000 square miles; it is bigger than the State of New Jersey. And I wanted to see how many MDIs were in my district. And then, I started to look at the entire State of Virginia.

So, in the entire State of Virginia, there is not a single bank MDI, or at least not according to the FDIC's data. And according to the National Credit Union Administration (NCUA), there are only seven credit unions in the entire State of Virginia that are listed as MDIs. And only one of those, the Brunswick County Teachers Credit Union, is in my district. This credit union has 388 members, and the assets total a little more than $520,000.

The reason that I talk about this is, from the northern part of my district to the southern part of my district, Brunswick County has the highest unemployment—it is double in the northern part of my district—and also has the largest minority population. So, it was interesting to me, to do that type of analysis.

And if you look at my district, it won't take you long to realize that one MDI serving 388 individuals accounts for a very small percentage.

So, my first question to each of these witnesses—and, again, it is based on the district that I have is, what are your agencies doing to encourage MDIs or de novos to increase membership or participation especially in rural districts such as mine, when there is clearly a disconnect between MDI availability and the population at large?

I will start with Ms. Ninichuk, because when I looked at your bio, it had the word "expansion" in it. So I will start with you, and I will go right to left, if that is okay, on these questions.

Ms. NINICHUK. Sure.

Mr. RIGGLEMAN. Thank you.

Ms. NINICHUK. What we are doing in NCUA is taking a look at our overall chartering process. And part of that chartering process is an education process. So we have coordinators who are specifically—that is their job, to work with organizing groups, educating them about what it is and what it takes to start a new credit union. And part of that is also an education on MDIs.

And what we are finding is that the majority of organizing groups that are coming through are associated with faith-based, Native Americans. So we are really working to educate those organizing groups about MDIs, and we hope to have some success.

But, again, for credit unions and their uniqueness, the most difficult part is finding that capital, which is donations. And they never get that money back. So when we talk to organizing groups, there is a little bit of a balk there, like, "Oh, no." But, still, we have been able to open up 13 new credit unions, I think, within the last 5 years, and 4 of them have been MDIs. But the latest one is still not self-designating as an MDI.

Mr. RIGGLEMAN. Thank you.

Mr. Lindo?

Mr. LINDO. And then quickly, on top of what Ms. Ninichuk just said, some of the barriers to entry are what we talked about before.

You have to develop enough capital. But we can ease things. Like, what does the application process look like? How do you get through it? And all that.

But you come, fundamentally, in a rural area, like you have described yourself, you don't have that many people in that one geographic area, so you have to be more creative. In short, you have to figure out how to deliver that service to a broader geographic layout. And you are going to have the same types of cost, start-up costs, and the like.

So that is really the biggest obstacle, how you assimilate that capital and get it applied in such a broad geographic area. Rural communities tend to be more challenging, to be blunt with you.

Mr. RIGGLEMAN. Thank you, sir.

Ms. Rudolph?

Ms. RUDOLPH. In addition to the streamlining of our application process I mentioned earlier, I think one of the barriers to de novo creation has really been the interest-rate environment that we are in ever since the crisis. And it is very difficult to start an institution with low interest rates when you are starting out with a portfolio that doesn't have any assets on the books or deposits.

Mr. RIGGLEMAN. Yes, ma'am.

Ms. Cole?

Ms. COLE. I agree with what the other panel members have said. But capital, getting capital, is crucial for those institutions.

But what OCC has also been doing is, we are supportive of streamlining the application process. And as individuals have come to talk to us, we try to do a lot of technical assistance to help them understand the application process and what is needed. And then, if someone submits an application, we help them with that application as it moves through the process.

Mr. RIGGLEMAN. Thank you.

I wish we had a little bit more time, and I am sure you guys wish we had all the time in the world. But as we go forward, thank you. Because Mr. Lindo and Ms. Cole, all of you sort of segued into what my next questions were going to be, which was about barriers to entry for these specific types of institutions.

And the fact is—and I will tell you in my last 10 seconds—we want MDIs in our district. The massive rural footprint that we have, I think, is something that would be well-served. Thank you.

And I yield back the balance of my time.

Chairman MEEKS. The gentleman yields back.

The Chair now recognizes the gentleman from Colorado, Mr. Tipton, for 5 minutes.

Mr. TIPTON. Thank you, Mr. Chairman, and I appreciate you holding this hearing today.

Several important points have been brought up that are important in my district in regards to the CRA reform that needs to take place, but also to help small community banks.

We have a very similar circumstance to my colleague, Mr. Riggleman. I happen to have 54,000 square miles of the State of Colorado. We don't have one MDI that is in our district. The lone one in Colorado is actually in Denver, Colorado, to be able to provide that service.

But the connectivity that we have with the MDIs is, we have low- to moderate-income people in the vast majority of our district. And access to capital, access to banking services is something that is critically important.

And I do want to lend my support to the comments of the ranking member in regards to CECL and to be able to answer, actually, the question we didn't get the answer to, in terms of, where are they going to be able to get the money to be able to have that compliance when CECL gets down to our smaller community banks? And it is going to be—you are going to have to increase the interest rate to the people who are trying to access that capital.

Maybe, we can just run down the line. If we are going to be increasing the interest rate to low- to moderate-income people, is that going to be a benefit to that MDI or to that community bank or, most importantly, to the people that we are trying to serve?

Ms. Cole?

Ms. COLE. I am not certain that will be the impact, because right now—

Mr. TIPTON. Is there another way to pay for it?

Ms. COLE. I don't know what the impact will be at this point. The results of various studies have been very different. There are conflicting studies or results or conclusions from those studies. So, I don't know at this point.

And that is one of the reasons, I think, the FASB agreed to delay the implementation for other institutions. They are implementing it for the larger institutions at the current moment, and then we, as an agency, plan to study what happens and whether there is an adverse impact on credit or not.

Mr. TIPTON. And I think that has probably been one of the ultimate challenges. We have had Jamie Dimon here, who, when we were talking about Dodd-Frank, said that it was basically a moat around the big banks. They can afford it. But what we experienced after Dodd-Frank was that trickle-down effect in terms of regulations that do ultimately flow.

And, Mr. Lindo, you, in response to Ms. Tlaib, had talked about being able to actually tailor some of the requirements. Can you maybe speak to that?

Mr. LINDO. Yes. The tailoring is generally used if, in fact, we have discretion. On this particular case, the FASB standard would apply to all institutions, and we don't have the ability to say, you can't apply CECL. Tailoring works when it is our rules. If these are the FASB's rules, I don't see how tailoring would work in this particular case.

Mr. TIPTON. Would that maybe speak to the importance, frankly, of being able to make sure that we can—for MDIs, for community banks to be able to tailor regulations, for small credit unions to be able to tailor those to be able to meet the size, the risk portfolio of the institution?

Ms. NINICHUK. NCUA does work to make sure that they consider the complexity of the institution as well as the size when they determine the regulations, yes.

Mr. TIPTON. Okay.

Mr. Lindo, would that be a solution?

Mr. LINDO. That would be. But, again, we are back to what our rules are, as opposed to FASB's.

What we could do in a case like this is, there are less costly ways for a firm to implement the accounting standard, and that would be the focus. So, rather than hire a consultant to come in and explain how to apply these standards, we would come up with some proxy for that, that a firm could use, a small bank.

We have kicked this around in our shop, what would it look like if we came up with some estimating tools that a small bank could use in lieu of going out to a consultant and getting them to come in.

Mr. TIPTON. I did want to be able to get a little more information from you, because you had indicated that you had started a program in 2018 to be able to give the opportunity for MDIs to meet with Federal Reserve Governors to express their concerns.

Mr. LINDO. Yes.

Mr. TIPTON. What concerns did they express to you?

Mr. LINDO. They brought up CECL, and they brought up the overhanging burden of regulation in general.

For example, we talked about BSA already. It doesn't discriminate on the size of institution. If you have a transaction over $10,000, it applies. And it applies throughout.

So, things like that were brought up as compliance-type issues that don't necessarily, from a business standpoint, have much benefit. They brought those to our attention a bit.

Mr. TIPTON. Great.

My time has expired, Mr. Chairman. Thank you again for holding this hearing.

Chairman MEEKS. Thank you.

The gentleman's time has expired.

I now recognize the ranking member, Mr. Luetkemeyer, for 2 minutes for a closing statement.

Mr. LUETKEMEYER. Thank you, Mr. Chairman. I appreciate the hearing today.

I think that we have covered a lot of things with regards to the challenges that MDIs have. I think we need to, again, understand the pressure that they are under. Having lost basically a third of them in the last 10 years, it is indicative of the entire financial industry. How they are being regulated and the forces that are sometimes outside their circumference here is actually having an impact on them.

And so it is also concerning, as I indicated in one of my questions, that even the FDIC's own study shows that the number-one regulatory issue is CECL, as my friend and a couple of other friends here on the—one from Colorado, and another one from Texas—indicated.

This is, in particular, an issue that is going to put a lot more pressure on the MDIs. And this is exactly what we don't need to have happen. You want to have access to credit for low- and moderate-income folks.

We had the Home Builders Association here a couple of times over the last year, and they indicated that if you raise the cost of the loan by $1,000, 100,000 people across this country no longer had access to home mortgage money. That is dramatic. And it is going to have a dramatic effect on small community banks and credit unions. It is going to hit them right between the eyes and their customers right between the eyes.

And I am very disappointed in the quality of the answers coming back this morning from the panel. I was underwhelmed, quite frankly, from the standpoint that anybody who has watched the hearings over the last year knows where I am going to be, and what kind of questions you are going to get when I talk to regulators and people who are in the regulatory business here, and for you to be unable to answer my questions is very disappointing.

So I want to stress to you again, when you go back to your bosses, I want you to go find out what the effects are going to be on the low- to moderate-income folks, especially MDIs, and be able to address those and be able to help us push back against FASB and this unfortunate accounting standard.

Thank you, Mr. Chairman, for your leadership on this subcommittee and for your leadership on this issue.

Chairman MEEKS. The gentleman's time has expired.

I now recognize myself for 2 minutes for a closing statement.

First, let me just thank the witnesses for their testimony today.

And some of you may know that I am working on a piece of legislation to deal with the minority banks and that we drafted legislation, and I thank those agencies for some initial comments on the draft. Similarly, I want to thank the minority banks that testified last month, that also provided feedback on the legislation. I am grateful for that.

It is very uncommon for a committee or a subcommittee to hold two back-to-back hearings on the same topic to gain a full perspective of the issue. And I hope that our doing so makes abundantly clear our resolve to address the issues identified and take action to pass legislation that will materially move the needle for protecting and preserving minority banks and banks that serve the poor and the underbanked.

We have an urgent national problem with rapid and dramatic concentration of our banking system and the rapid growth of the non-bank financial system and expansion of banking deserts across urban and rural America.

And while I plan to introduce my legislation in the coming weeks, and I sincerely hope it will gain broad, bipartisan support to become law, I also firmly believe that a significant component of the solution lies not in legislation but in a renewed and more urgent commitment by the regulators to think creatively about what more they can do for a broader coalition of Executive Branch agencies and departments to make a serious commitment to work with minority and small community banks and for the lenders and the banking sector and fintech to engage with these institutions.

Congress has an important role to play, but a great share of the accountability and opportunity lies outside of this body. And I urge all of us to take on this challenge with urgency to protect and preserve the unique fabric and diversity of our banking system, which reflects the diversity of the country as a whole and serves this diverse nation without prejudice or exclusion.

I would like to, again, thank our witnesses for their testimony today.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

This hearing is now adjourned.

[Whereupon, at 11:42 a.m., the hearing was adjourned.]

A P P E N D I X

November 20, 2019

For Release Upon Delivery
10:00 a.m., November 20, 2019

TESTIMONY OF

BEVERLY COLE

DEPUTY COMPTROLLER, NORTHEASTERN DISTRICT

OFFICE OF THE COMPTROLLER OF THE CURRENCY

before the

SUBCOMMITTEE ON CONSUMER PROTECTION AND FINANCIAL INSTITUTIONS

COMMITTEE ON FINANCIAL SERVICES

UNITED STATES HOUSE OF REPRESENTATIVES

November 20, 2019

Statement Required by 12 U.S.C. § 250:
The views expressed herein are those of the Office of the Comptroller of the Currency and do not necessarily represent the views of the President.

I. Introduction

Chairman Meeks, Ranking Member Luetkemeyer, and members of the Subcommittee, I am Beverly Cole, Deputy Comptroller for the Northeastern District and Designated Federal Officer (DFO) for the Office of the Comptroller of the Currency's Minority Depository Institutions Advisory Committee (MDIAC). I also am responsible for coordinating activities across the OCC to promote the health and vitality of OCC-supervised minority depository institutions (MDI).

Thank you for the invitation to discuss the OCC's activities to preserve and promote MDIs. The OCC supports the long-term health and preservation of MDIs, consistent with the agency's mission of ensuring a safe and sound federal banking system and providing fair treatment and fair access to customers. Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) further sets forth goals to:

- Preserve the number of MDIs;
- Preserve the minority character of MDIs in cases of merger or acquisition;
- Promote and encourage the creation of new MDIs; and
- Provide training, technical assistance, and educational assistance to strengthen and maintain healthy MDIs.

Comptroller Otting and staff at every level of the agency work to achieve these goals. In his 34 years of experience as a banker, Comptroller Otting saw firsthand the invaluable contributions MDIs provide not only to the specific communities they serve, but also to the federal banking system overall. Under his leadership, the OCC has continued its commitment to providing resources and expertise to preserve minority ownership and to helping MDIs remain safe, sound, and capable of meeting the needs of their communities. My testimony today describes the OCC's supervisory approach to MDIs, as well as our engagement in a range of activities, including chartering a federal advisory committee, the members of which are MDI bankers and other bankers with an interest in assisting MDIs who provide advice to the OCC on MDI issues, facilitating industry collaboration, and providing educational and training opportunities to provide support to MDIs. My statement concludes with observations about draft legislation that would further support MDIs to continue to be vibrant members of their communities.

II. OCC Supervision of MDIs

The OCC charters, supervises, and regulates more than 1,200 national banks, federal savings associations, and federal branches of foreign banks (collectively, "banks") which cover the entire range of asset sizes and business models. Our supervised banks range in size from very small community banks to the largest, most globally active U.S. banks. The vast majority of them have less than $1 billion in assets, while more than 60 have greater than $10 billion in assets. Together, they hold $12.7 trillion in assets — almost 70 percent of all the assets of commercial U.S. banks.

The OCC generally defines an MDI as any national bank or federal savings association that is at least 51 percent owned by minorities, women, or socially and economically disadvantaged individuals, and not a U.S. subsidiary of a foreign-owned bank. Of the total number of OCC supervised institutions today, 47[1] are minority and women-owned, which account for about four percent of all national banks and federal savings associations.[2] OCC-supervised MDIs are located in 19 states with combined assets of $17.1 billion. These banks

[1] Unlike other federal banking regulators, the OCC includes women-owned institutions in our MDI designation. Twelve of the 47 MDIs supervised by the OCC are women-owned.

[2] There are 159 total banks classified as MDIs today; 97 are regulated by the Federal Deposit Insurance Corporation, 47 are regulated by the OCC and 15 are regulated by the Federal Reserve.

range in asset size from $46 million to over $2 billion, although more than 75 percent have assets of $500 million or less. MDIs regulated by the OCC are concentrated in California, Texas, and New York. Twenty of the MDIs supervised by the OCC are owned by Asian Americans or Pacific Islanders, seven are owned by Hispanic Americans, five are owned by African Americans, and three are Native American or Alaska Native-owned.

The U.S. banking system is composed of banks of different sizes and business models located in communities with diverse needs, with owners and management from many different backgrounds. The perspectives and values of bank owners and other stakeholders influence how institutions make decisions about bank leadership, strategy, new products, and target markets. MDIs frequently serve populations underserved by the mainstream banking sector, such as recent immigrants where there may be language and cultural challenges; in Indian country, which may be subject to banking deserts; and in the historically underserved urban and rural areas where many MDIs are located. Supervision of this diverse industry requires a framework broader than a one-size-fits-all approach. The OCC understands that MDIs are uniquely positioned to create positive change in these communities, and can do so in a safe and sound manner.

The agency's regulatory approach for all banks includes enforcing compliance with federal fair lending and other consumer protection laws, as well as evaluating bank performance in meeting community credit needs pursuant to the Community Reinvestment Act (CRA). The OCC develops a supervisory strategy for each MDI that reflects these expectations, but also is tailored to the operations and specific risks facing each MDI. To ensure an examination team has familiarity with the issues and needs of MDIs, the OCC assigns knowledgeable assistant deputy comptrollers (ADC) and portfolio managers to these institutions. Further, when assigning examiners to MDIs, the OCC takes into account the expertise and background needed to properly evaluate the products and services offered, and the markets and environments in which they operate. Periodically, the OCC holds meetings and information sharing sessions among ADCs and examiners to exchange information on the overall condition of MDIs and the initiatives OCC is supporting to assist MDIs. When questions or issues arise, ADCs can supplement their examination staff and draw upon a range of expertise to provide additional legal, accounting, compliance, capital markets and policy knowledge. We also strive to be an expert resource as MDIs consider continuing or expanding into new lines of business, products, and services. OCC managers and staff also meet with minority bank trade associations to stay informed of important topics and emerging concerns.

Condition of the MDIs

Today, the financial health of OCC-supervised MDIs is stable, but some continuing challenges remain. On average, MDIs are well capitalized, and have capital and leverage ratios consistent with the overall population of community banks. However, their average growth rate is significantly lower than that of all community banks, given the struggles some MDIs face in identifying quality growth opportunities to fully leverage their capital and generate greater earnings. They also have a modestly higher number of problem loans compared to the community bank average. As a group, MDIs continue to have higher operating costs than community banks as a whole. Despite this period of expansion since the financial crisis, several MDIs continue to be challenged in maximizing their earnings potential and achieving solid profitability.

While the OCC proactively supervises every institution facing financial difficulty or hardship, sometimes circumstances ultimately lead to a bank's failure. In all failing bank cases, the OCC collaborates with the FDIC to ensure an orderly resolution to avoid an adverse impact on the bank's customers and community. To help preserve MDIs, OCC supports the FDIC's recent announcement to provide a two-week period for MDIs to exclusively conduct due diligence on other MDIs that are in need of a resolution before allowing non-MDI banks to bid to acquire a failing institution.[3]

III. OCC Actions to Preserve and Promote MDIs

In addition to technical assistance provided through the supervisory process, the OCC has undertaken a number of special initiatives to preserve and promote MDIs. These activities have included the creation of the MDIAC, a collaboration initiative, and training and outreach opportunities provided outside of the supervisory process.

Minority Depository Institution Advisory Committee

In 2012, the OCC chartered its MDIAC, in accordance with the Federal Advisory Committee Act.[4] The MDIAC was created to provide advice to the OCC on meeting the goals established in section 308 of FIRREA, and to provide commentary to the OCC about MDI supervision. The agency achieves these goals by convening meetings and discussions about the current condition of MDIs and regulatory changes or other steps the OCC may be able to take to continue to meet the goals in section 308 of FIRREA. The MDIAC also has regular dialogue on issues of concern to OCC-supervised MDIs and has served as a sounding board for OCC initiatives to provide technical assistance and training to MDIs. The members of the MDIAC serve two-year terms and include representatives from MDIs, large, and midsize banks. The

[3] https://www.fdic.gov/news/news/speeches/spoct0219.html

[4] In 2008, the Office of Thrift Supervision (OTS) established a Minority Depository Institutions Advisory Committee for minority savings associations. Pursuant to Title III of the Dodd-Frank Wall Street Reform and Consumer Protection Act, all functions related to the OTS relating to federal savings associations were transferred to the OCC. In 2012, after the transfer of functions from the OTS to the OCC and the abolishment of the OTS, the OCC chartered the MDIAC, which includes national bank and federal savings association MDIs as members.

committee meets two to three times per year. The current membership was approved in 2019, and our most recent meeting was held in September.[5]

Comptroller Otting attends MDIAC meetings and facilitates a roundtable discussion to engage with the members about specific topics of interest. The Comptroller also shares his priorities and provides updates on current OCC activities. These roundtable discussions are fruitful and focus on obtaining feedback from MDIs on topics of concern to them as well as providing context for OCC decisions with opportunities to provide feedback.

OCC Collaboration Initiative

In 2015, the OCC issued a paper titled "An Opportunity for Community Banks: Working Together Collaboratively."[6] Following the financial crisis, community banks were challenged with limited business opportunities, increasing compliance requirements, technological change, and competition from larger bank and non-bank competitors. This paper highlighted the benefits of bank partnerships for pooling or sharing resources to reduce costs, achieve economies of scale, and leverage specialized expertise to serve customers and communities, particularly those in minority and low- to moderate-income communities. This paper provided a backdrop for OCC's dedicated efforts to support MDI collaborations.

In April 2016, the OCC hosted its first collaboration event in Washington, D.C. which included a select group of OCC-supervised MDIs and mid-sized banks to facilitate relationship building and information sharing among participants. This meeting generated considerable interest and resulted in positive feedback, including the suggestion to hold meetings regionally. Since then, we have hosted 12 regional collaboration roundtables in Washington, D.C., Los

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[5] https://www.occ.gov/news-issuances/news-releases/2019/nr-occ-2019-61.html.
[6] https://www.occ.gov/publications-and-resources/publications/banker-education/files/an-opp-for-community-banks-working-together-collaboratively.html. The OCC plans to issue an updated paper next year.

Angeles, Dallas, New York City, Miami and Chicago – locations that are central or convenient to where the majority of OCC-supervised MDIs are located. By collaborating with each other and with larger institutions, the MDIs can access expertise, technology, and financial services and products that they may not be able to access on their own. Such collaboration also can help MDIs diversify their loan portfolios by providing opportunities for selling participations in loans to other institutions, or in turn purchasing loans or loan participations from other institutions, which can provide the MDI access to good, quality-earning assets. MDIs often seek loan participations so they can work with their customers on larger transactions, improve liquidity, access performing assets, and reduce concentration risks.

To date, the most common area of collaboration has involved MDIs receiving deposits from larger institutions which provide a stable funding source. Most attendees of the roundtables have reported new deposit relationships as a result of the dialogue. Other collaborations have resulted in equity investments into MDIs and technical assistance in a variety of forms including training, support for new product development, and assistance with Bank Secrecy Act/Anti-Money Laundering (BSA/AML) and other compliance programs. The larger banks report business benefits from these transactions, as well as the receipt of CRA consideration. The OCC has been very deliberate in communicating that the primary focus of these engagements is to build longstanding, mutually beneficial business relationships. We have found that successful collaborations are based on a sense of mutual trust, from which more sustainable and beneficial partnerships emerge. These collaborations also may provide a secondary benefit by providing positive CRA consideration in performance evaluations for banks that engage in certain qualifying types of deposit, lending or investment activity with MDIs. Positive CRA consideration provides an additional incentive for banks to engage with MDIs.

In May 2018, the OCC published a Community Development Investments article on "*Profitable Partnerships: Collaborating with Minority Depository Institutions,*"[7] which highlighted two examples of collaborations. In 2016, Citibank extended use of its nationwide ATM network to customers of MDIs free of charge. Together, the MDIs and other institutions in the Citibank ATM community network serve more than 400,000 customers, many of whom live in low- to moderate-income and majority-minority neighborhoods. Texas Capital Bank also took on an early leadership role and initiated collaborations to provide correspondent banking services with several MDIs and community development financial institutions (CDFI) that provide new business and consumer relationships in culturally diverse and low- to-moderate income communities across the nation. Texas Capital Bank has also mentored other banks looking to initiate additional collaborative activities.

By organizing and hosting these roundtable discussions, the OCC has taken a leadership role in promoting collaborations. The meetings are designed to help the bankers develop professional relationships with each other, and to understand each bank's needs and opportunities for collaboration. The banks share their successes and discuss the practices that helped them to be successful. The banks also are able to identify pain points in the process, including perceived regulatory barriers to success.

OCC has sought to bring attention to these successful collaborations to spur awareness among both MDI and other community, midsize, and large banks about how they can continue to find opportunities to collaborate. The OCC developed a fact sheet titled "*Partnerships with Minority- and Women-Owned Financial Institutions, Low-Income Credit Unions.*"[8] which

[7] https://www.occ.gov/publications-and-resources/publications/community-affairs/community-developments-investments/may-2018/ca-cdi-newsletter-may-2018.html.
[8] https://www.occ.gov/publications-and-resources/publications/community-affairs/community-developments-fact-sheets/ca-fact-sheet-partner-minority-women-owned-fin-instit-aug-2016.html.

publicized some of the ways banks can partner with MDIs to serve bank customers, jointly develop new products and services, share back-office operations and expertise to reduce operating or compliance costs, and jointly purchase goods and services at more efficient costs. Also, this year, the OCC provided details about its collaboration roundtable program to the FDIC in order to provide assistance to the FDIC as it prepared its own collaboration roundtable initiative. The OCC is currently evaluating our collaboration initiative as part of our planning effort for 2020 activities.

Training, Technical Assistance, and Educational Programs

In addition to regularly providing technical assistance to banks during the supervisory and examination process, the OCC also considers topical issues about which additional training or assistance could be valuable. These efforts have included providing training to help MDIs improve overall asset quality and strengthen capital levels, as well as providing assistance on loan administration, liquidity, interest rate risk management, and capital growth through earnings retention.

In conjunction with our collaboration roundtables, the OCC also has provided technical assistance and training sessions on issues such as cybersecurity, strategic planning, and BSA/AML compliance. Based on the success of these training sessions, the OCC offered the training to other banks, and also translated the material to webinars to reach broad audiences. Further, our district community affairs officers have provided training on issues related to the CRA and community development.

The OCC also encourages MDI directors to attend our bank director workshop training sessions to help them fulfill their fiduciary responsibilities. MDI directors are integral to the long-term health and viability of community banks, and we are committed to providing a support structure that recognizes and responds to the importance of their responsibilities. To encourage the attendance of MDI directors, the OCC waives their registration fee for these workshops. In 2019, the OCC held director workshops in locations across the country on risk governance, credit risk, compliance risk, and operational risk, and a significant number of MDI directors attended.

In 2018, the OCC developed and delivered workshops for MDIs on small business lending and innovation in the industry. In addition, our External Outreach and Minority Affairs staff participated in discussions with the National Bankers Association and other federal regulators including the Small Business Administration and Minority Business Development Agency, to discuss small business partnership opportunities with non-minority financial institutions and private sector entities. These meetings provided the OCC additional opportunities to hear suggestions from MDI bankers about issues affecting their operations and provided MDI bankers with additional information on banking trends and issues.

The OCC also actively participates as an exhibitor and speaker in national and state banking conventions. As well, the OCC participates in events sponsored by minority trade associations, which are typically attended by a significant number of MDI representatives. Every two years, the OCC, in conjunction with the FDIC and Federal Reserve Board, hosts an interagency conference for MDI and CDFI banks to provide opportunities to interface with regulators and bankers on key topics and to help promote and preserve the MDI mission. In 2019, the conference was hosted by the FDIC at the Seidman Center in the Washington, D.C. area. Senior OCC staff participated in discussions on supervisory issues, cybersecurity, innovation, collaboration, and other relevant topics. Panels discussed how to access and use various federal programs, and included peer discussions on how MDIs found solutions to common problems. The OCC led a panel discussion highlighting successful MDI collaboration initiatives. The OCC will host the next interagency MDI conference in 2021.

IV. Ensuring Diversity in Community Banking Act of 2019

The OCC has reviewed the draft bill, "Ensuring Diversity in Community Banking Act of 2019," authored by Chairman Meeks. We applaud Chairman Meeks for including such a breadth of ideas in this legislation to support MDIs and address some of the challenges that they face in serving their communities. The OCC is pleased to see the requirement in the bill that all the federal banking agencies and the NCUA establish a Minority Depository Institutions Advisory Committee. As mentioned previously, the OCC's MDIAC has been in place since 2012, and it is a valuable source of regular dialogue, robust and candid discussion, and insights that has resulted in enhancements to our MDI supervision. As well, Comptroller Otting has long believed that consumers need access to a greater choice of lenders to meet their short-term, small-dollar credit needs. The agency was pleased to see bill language supporting the issuance of responsible small dollar loans to low-to-moderate income consumers as a low-cost alternative to payday loans and other non-traditional sources of financing. Such loans can assist in meeting consumer needs, as well as extending the reach of MDIs or other rural institutions into underserved markets. Finally, the bill builds upon various programs that currently exist, such as the Treasury mentor-protégé program, and considers incentives for institutions to participate in them.

We recognize that one of the most critical challenges MDIs face is their ability to raise capital, and the bill includes language to help address this need. The OCC would like to work with the Subcommittee to discuss additional ways that this challenge could be addressed in the legislation. The agency also has some technical suggestions to make, such as including "women-owned institutions" in the programs that are provided to MDIs in the bill. We look forward to working with the Subcommittee on the draft bill as it proceeds through the legislative process.

V. Conclusion

MDIs are an important part of the federal banking system. The OCC is engaged in several initiatives to support the health and vitality of the MDIs that we supervise. From our efforts to provide expert supervision to these institutions to our collaboration initiative and our continual training, technical assistance, and educational programs, the agency is committed to supporting the long-term health and vitality of these important institutions.

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Statement by

Arthur Lindo

Deputy Director

Board of Governors of the Federal Reserve System

before the

House Financial Services Subcommittee on Consumer Protection and Financial Institutions

U.S. House of Representatives

November 20, 2019

Thank you, Chairman Meeks, Ranking Member Luetkemeyer, and members of the subcommittee. I appreciate the opportunity to be here today to discuss the Federal Reserve's program to preserve and promote minority depository institutions (MDIs).

The Federal Reserve's Partnership for Progress (PFP) program, established in 2008, was created in recognition of the importance of MDIs. The PFP works to preserve and promote these institutions. We understand the challenges inherent in providing access to credit and other financial services in traditionally underserved areas, and through the PFP program, we support an inclusive financial system. The Federal Reserve remains strongly committed to identifying and carrying through on all opportunities to support MDIs.

At the Federal Reserve Board of Governors (Board), the PFP program is jointly overseen by the Division of Supervision and Regulation (S&R) and the Division of Consumer and Community Affairs (C&CA). I serve in the role of co-chair for S&R, and Senior Associate Director Anna Alvarez Boyd serves as co-chair for C&CA. This joint management allows us to pair our community banking expertise with our community development expertise to most effectively support MDIs and help them fulfill their missions and address the challenges facing their communities. This unique arrangement leverages the creativity and outreach of our community development programs and our forward-looking approach to safety and soundness supervision. In addition, each of the 12 Federal Reserve Banks has a designated PFP coordinator, who we communicate with regularly and who provides technical assistance to the MDIs in their district to fulfill the mission of the PFP program.

The Federal Reserve has primary supervisory responsibility for 15 state-member MDIs. We provide direct technical assistance and outreach to our regulated MDIs, but we also view our congressional mandate in section 308 of the Financial Institutions Reform, Recovery, and

Enforcement Act to preserve and promote MDIs as more than simply supervising these institutions. In this regard, we actively work with our colleagues at the other agencies with section 308 responsibilities to ensure a coordinated approach to supporting all MDIs.

In addition, we are able to leverage the many resources available to us as the central bank of the United States to support MDIs consistent with the goals of the PFP program. First, as you know, the Federal Reserve is a research-driven institution, and we have engaged with internal and external stakeholders on a range of research to enhance our understanding of the business models of MDIs and how they serve their communities. Second, Federal Reserve leadership, including Board Members and Reserve Bank presidents, has spoken publically about the importance and positive impact of MDIs on underserved communities.[1] The Board also publishes an annual report on MDIs,[2] pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act. A copy of the Board's most recent report is included with my written testimony. Third, through the tremendous convening power of the Federal Reserve, we have been able to bring together individuals and institutions to form partnerships that will assist the MDI sector. For example, in August 2018, we hosted a meeting of Native American financial institutions on the Flathead Reservation in Montana. This meeting provided an opportunity for Native American banks, credit unions, and community development financial institutions to talk about how to better serve their communities. Moreover, this month, we collaborated with the

[1] Jerome H. Powell, "Welcoming Remarks" (speech at Expanding the Impact: Increasing Capacity and Influence, the 2017 Interagency Minority Depository Institution and Community Development Financial Institution Bank National Conference, Los Angeles, CA, April 5, 2017), https://www.federalreserve.gov/newsevents/speech/powell20170405a.htm.
James Bullard, "Welcoming Remarks: A Forum for Minorities in Banking" (speech at Banking and the Economy: A Forum for Minorities in Banking, St. Louis, MO, September 26, 2019), https://www.stlouisfed.org/from-the-president/speeches-and-presentations/2019/welcoming-remarks-forum-for-minorities-in-banking.

[2] Board of Governors of the Federal Reserve System, *Preserving Minority Depository Institutions* (Washington: Board of Governors, May 2019), https://www.federalreserve.gov/publications/2019-may-preserving-minority-deposit-institutions.htm.

Federal Deposit Insurance Corporation (FDIC) to host a roundtable in Chicago for MDIs and larger financial institutions to discuss partnerships that could be mutually beneficial for both types of institutions.

We continue to seek creative ways to address the range of concerns we hear from our MDIs, such as the challenge to attract and retain talent at all levels of their organizations. For example, this September, the Federal Reserve hosted its fourth annual Forum for Minorities in Banking (forum), which is a leadership gathering for minorities at any banking institutions, not just specifically MDIs. The forum is designed to provide minority bank leaders with industry, leadership, and professional development resources that will enhance their careers and networks. At the most recent forum, in September, we had 171 attendees, and agenda items included presentations on a history of America's first black banks, inclusive leadership, cybersecurity, the housing market, and our PFP program.

As I mentioned previously, the PFP coordinators at each of the Reserve Banks maintain regular contact with our supervised MDIs and provide technical assistance as needed. Recently, our district coordinator from the Federal Reserve Bank of San Francisco worked with his team to provide technical expertise around the Bank Secrecy Act (BSA) for an MDI. The request for technical assistance was initiated by the bank after they attended meetings with Federal Reserve PFP staff and learned more about the outreach options available through the program.

We also know that it is important for leadership at the Board to hear directly from MDIs. Therefore, starting in 2018, the Board began hosting a biennial MDI Leadership Forum where executives of our supervised MDIs are invited to meet with Federal Reserve governors and senior staff in Washington, D.C. In 2018, they shared their perspectives and challenges in a meeting with Vice Chair for Supervision Randal Quarles. The goals of the MDI Leadership Forum are to

- provide MDI chief executive officers (CEOs) and executives with an opportunity to engage in discussions with Federal Reserve staff and leadership, as well as engage with CEOs and executives from other MDIs;
- hear directly from peer MDIs on the challenges and opportunities they face and to work with the Federal Reserve on solutions that can help MDIs better address these challenges;
- provide targeted regulator updates on timely industry topics such as the Current Expected Credit Losses accounting standard, the BSA, and other relevant topics; and
- provide a forum for our MDI leaders to interact directly with Federal Reserve governors to express their views on the opportunities and challenges facing MDIs.

In addition to promoting existing MDIs, the Federal Reserve supports the creation of new MDIs by providing information about financial institution development, including about the process of starting a bank and managing a bank through the de novo period. Further, district coordinators from each Reserve Bank periodically discuss emerging issues, attend conferences, serve on local exam teams during examinations, and collect feedback from MDIs on what they are seeing and how the PFP can provide additional assistance.

Finally, we make every effort to ensure that MDIs are taken into consideration when we are formulating regulatory and supervisory policy. Staff from our S&R and C&CA divisions provide insight to Federal Reserve leadership, staff, and examiners about the unique attributes and contributions of MDIs so that we can tailor regulatory and supervisory frameworks where it is appropriate to do so.

Thank you for inviting me testify today, and I look forward to your questions.

NCUA
National Credit Union Administration

Congressional Testimony

Martha Ninichuk
Director of the Office of Credit Union Resources and Expansion
National Credit Union Administration

House Financial Services Subcommittee on Consumer Protection and Financial Institutions

Hearing on "An Examination of the Decline of Minority Depository Institutions and the Impact on Underserved Communities"

Wednesday, November 20, 2019

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NCUA
National Credit Union Administration

Chairman Meeks, Ranking Member Luetkemeyer, and Members of the Subcommittee, as the Director of the National Credit Union Administration's Office of Credit Union Resources and Expansion (CURE Office), I appreciate your invitation to testify today about the state of Minority Depository Institution (MDI) credit unions, and to provide background on the NCUA's efforts to support these important institutions.

The NCUA's mission is to "provide, through regulation and supervision, a safe and sound credit union system, which promotes confidence in the national system of cooperative credit."[1] This system is vital to the American economy, touching more than one-third of all U.S. households.[2] In turn, the NCUA protects the safety and soundness of the credit union system by identifying, monitoring, and reducing risks to the National Credit Union Share Insurance Fund.

The agency takes seriously its paramount responsibilities to regulate and supervise approximately 5,300 federally insured credit unions with more than 118 million member-owners and more than $1.52 trillion in assets across all states and U.S. territories.[3] As part of that mission, the agency has developed initiatives to make it easier for credit unions to serve their members more effectively, including members of modest means and those in underserved areas.[4]

The CURE Office, which I lead, is responsible for administering the MDI Preservation Program. We offer support services to foster credit union development, with a particular focus on low-income-designated credit unions and MDIs. The CURE Office is also responsible for:

- chartering and field-of-membership matters;
- grant and loan programs;
- charter conversions;
- bylaw amendments; and
- online training to credit union board members, management, and staff.

Some of the CURE Office's programs, such as grant and loan funding, have specific eligibility requirements, while others, such as training, are open to all federally insured credit unions.

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[1] See NCUA Mission and Vision, https://www.ncua.gov/about-ncua/mission-values.
[2] NCUA calculations using the Federal Reserve's Survey of Consumer Finances, 2016.
[3] Based on June 30, 2019 Call Report Data.
[4] Serving the Underserved, National Credit Union Administration, https://www.ncua.gov/supportservices/credit-union-resources-expansion/field-membership-expansion/serving-underserved. The Federal Credit Union Act specifies that this national system is intended to meet "the credit and savings needs of consumers, especially persons of modest means." Credit Union Membership Access Act, Pub. L. No. 105-219, § 2(4), 112 Stat. 913, 914 (1998).

Credit unions are, by design, different from other financial institutions. They are member-owned-and-controlled, not-for-profit, cooperative entities. Their boards of directors are comprised entirely of volunteers. Their central mission is to give groups of people access to affordable financial services and the ability to participate in their institutions' management. MDI credit unions, more particularly, serve the financial needs of racial minorities because such populations traditionally have been underserved by the financial system.

To qualify as an MDI credit union, a federally insured credit union's percentage of current minority members, potential minority members, and minority board members must each exceed 50 percent. This requirement generally is consistent with the definition set forth in Section 308 of The Financial Institutions Reform, Recovery, and Enforcement Act of 1989, as amended (FIRREA).

The NCUA appreciates the significant value MDI credit unions represent to their members and communities, as well as the challenges they face. A diverse and inclusive financial services sector provides innumerable benefits, including better service, greater innovation, improved solutions, and a larger customer or membership base. At the NCUA, we further believe that it is optimal for a financial institution's board members, managers, senior leaders, and employees to reflect the community that it serves. Take, for example, how the following MDI credit union in the NCUA's Western Region helped its community:

> The MDI credit union is low-income-designated and its membership is largely comprised of Spanish and Portuguese speaking individuals. Management noticed that many members of the credit union's local community were farm workers who were uncertain about the benefits of financial services and how to access them. As a result, many were unserved or underserved. The credit union introduced a youth program that has benefited this membership segment. It established a branch at a local high school with a program that features a unique curriculum involving students in work-based learning.
>
> Three years following the program's inception, many students trained their parents to understand and trust the credit union. As a result, membership in the credit union has increased, as has the credit union's lending business. The credit union plans to continue its partnership with the school district and explore the possibility of expanding the program to additional high schools.

This MDI credit union is but one example of why the NCUA is committed to supporting MDI credit unions and the communities they serve.

The first part of my testimony today focuses on my personal experience working for, and with, small credit unions and MDI credit unions. Next, I will discuss the state of MDI credit unions. Finally, I will focus on the initiatives the NCUA has undertaken to assist and preserve MDI credit unions.

Personal Credit Union Experience

I know firsthand the importance of credit unions and the role they play within their communities. One of my earliest experiences with credit unions was as a manager of a small, faith-based credit union in Michigan. Our credit union was located in a room of the church's school. Members felt comfortable enough with our small credit union that they slipped cash deposits under the door leaving the money exposed until we opened the next day, or they would see us working after hours and knocked on our windows to slip in a car payment so they wouldn't be late. We were also there for members in times of emergency when members needed access to funds outside of normal business hours. This is why these institutions exist, it is why members volunteer their time to help these credit unions continue, and it is why the NCUA is committed to helping them succeed. They provide access and resources to communities that might not otherwise be part of the financial mainstream.

Current State of MDI Credit Unions

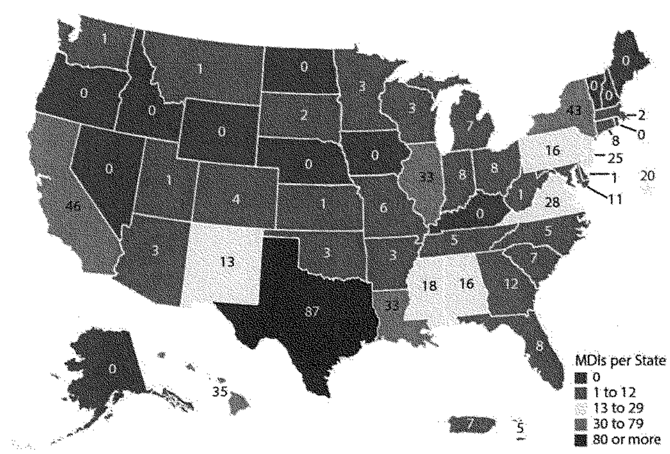
MDI credit unions perfectly capture the challenge of operating as mission-driven institutions in today's financial services landscape, one that is dominated by larger institutions who can so easily take advantage of economies of scale and access to resources. MDIs in general have to navigate the difficult path of providing intensive, consumer-focused services and education to populations that have historically been cut off from the benefits that come from being part of the financial mainstream, while at the same time dealing with the day-to-day operational challenges attendant with being a small financial institution, from attracting and keeping qualified professionals and volunteers to staying abreast of the latest changes in the law and the marketplace. By recognizing these issues, the NCUA can support the MDI mission in a way that creates value for MDI credit unions and their members.

As of June 30, 2019, there are 526 federally insured MDI credit unions, representing approximately ten percent of all federally insured credit unions. Collectively, MDI credit unions serve 3.9 million members, manage $39.6 billion in assets, have aggregate deposits of $34 billion, and hold $27.5 billion in loans. MDI credit unions tend to be smaller institutions, which by NCUA's definition is less than $100 million in assets. In fact, 87 percent of MDIs report total assets of $100 million or less, with 58 percent of all MDI credit unions having less than $10 million in assets. These credit unions are generally located in church, factory, and even home office locations. As with the smallest of credit unions, many MDI credit unions are run and staffed by volunteers.

During 2018, MDI credit unions provided $26.8 billion in loans to the individuals and communities they serve. The loans were primarily concentrated in mortgages and vehicle loans, each comprising approximately 40 percent of aggregate loans. Sixtyseven percent of first mortgages offered by MDI credit unions were fixed-rate loans, compared with only 57 percent offered by all federally insured credit unions. Compared with the national average for federally insured credit unions, MDI credit unions provide relatively greater percentages of funding for vehicles and unsecured loans.

MDIs are located in 37 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. The map below shows the geographic distribution of MDI credit unions throughout the country.[5] As of December 31, 2018, the largest number of MDI credit unions are in Texas, California, New York, Hawaii, Illinois, and Louisiana, respectively.

Total Number of Minority Depository Institutions by State



There were 37 fewer MDI credit unions in 2018 than in 2017. The declining trend in the number of MDI credit unions mirrors the decline in the overall number of federally insured credit unions. It also reflects the challenges, noted above, encountered by small financial institutions in general.

[5] The star represents the District of Columbia.

In 2018, mergers accounted for sixty-two percent of the decrease in the number of MDI credit unions. Twenty-four percent of the continuing credit unions were MDI credit unions. In 2018, 57 percent of merging MDI credit unions said their merger reflected their desire to offer expanded services to their members, 24 percent cited poor financial condition, followed by an inability to attract leadership at 14 percent, and lack of growth at five percent.

As a group, MDI credit unions underperformed the low-income, small, and all federally insured credit union groups in all categories of growth, including assets, membership, member shares, loans, and net worth. The driving factor was the loss in membership and member shares. MDI credit unions lost almost 420,000 members, resulting in a decline of $3.1 billion in shares.

On the positive side, over the last five years, 13 new federally insured credit unions have been chartered, with a third of those self-designating as an MDI credit union. Fields of memberships for these institutions are faith-based and professionally based.

The NCUA's MDI Preservation Program

The NCUA Board approved the MDI Preservation Program in June 2015. The final policy statement[6] details the program's objectives for preserving and encouraging MDI credit unions in accordance with the goals set forth in FIRREA. These goals are consistent with the NCUA's mission and strategic goal of ensuring a safe, sound, and sustainable credit union system.

The NCUA's MDI Preservation Program provides needed support to federally insured credit unions that serve communities and individuals who may lack access to mainstream financial products and services. In many cases, our examiners in the field and CURE Office staff provide ongoing assistance to MDIs by working directly with them, sharing their knowledge of the credit union system and best practices, coordinating mentor relationships between large and small credit unions, and generally acting as a knowledgeable point of contact and resource.

NCUA assists with MDI expansion plans. During 2018, NCUA approved field of membership expansions for 28 MDIs, allowing them to add more than 650 groups or geographic areas to their membership. NCUA staff understand the benefits these credit unions provide the communities in which they provide financial services.

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[6] The NCUA Final Interpretive Ruling and Policy Statement 13-1, Minority Depository Institution Preservation Program, *available at* https://www.ncua.gov/files/publications/interpretive-rulings-policy-statements/IRPS2013-1.pdf

I would like to highlight an example of the NCUA's work with MDI credit unions:

> An MDI credit union was returned to viability, generating positive earnings, after an NCUA examiner worked with management and officials to implement its strategic business plan. The plan was developed after the long-time former CEO retired. Under the prior management, the credit union was not earning enough to cover its operating expenses. After several years of losses, the credit union was faced with the possibility of merger. The examiner suggested that, among other things, the credit union seek opportunities to participate in loans with other financial institutions to improve earnings. Credit union officials implemented the plan, including pursuing loan participation opportunities.

The CURE Office provides no-cost training to MDI credit unions. In our experience, training for credit union management, board members, and staff can significantly influence an MDI credit union's success. In the past, we have offered training in financial statement analysis, succession planning and best practices to grow your credit union. Last year, the agency updated its Learning Management Service, which provides online access to a variety of training topics helpful to MDI credit unions, such as credit union governance, operations, and products and services. Participants can sign up for courses, receive certificates of completion and keep track of their progress.

In addition to preserving existing MDIs, the NCUA is focused on increasing the number of MDI credit unions throughout the country. For example, in 2018, coinciding with Minority Enterprise Development Week, we launched a social media campaign to identify new MDI credit unions. It is important to note, however, that designation as an MDI credit union is voluntary. A credit union may qualify for the MDI designation, but may have chosen not to seek it. Unlike the low-income designation, which confers a number of benefits, such as grants, access to secondary capital, and the ability to accept non-member deposits, the MDI designation does not by itself bestow specific incentives.

In an effort to bridge this gap, earlier this year, the NCUA created a new pilot mentoring program for small, low-income credit unions that are also designated as MDIs. The MDI Mentoring Pilot is designed to encourage mentor relationships between larger low-income designated credit unions (mentors) and small low-income MDIs (mentees).

The purpose of the MDI Mentoring Pilot is to encourage strong and experienced credit unions to provide technical assistance to small MDI credit unions to increase their ability to serve minority, low-income and underserved populations. The larger credit unions will provide technical assistance, such as building staff capacity through training, improvements to credit union operations, and assistance with the modernizing processes. The NCUA will use the results of this pilot program to explore the possibility of expanding the initiative in the future.

NCUA
National Credit Union Administration

The agency supports the creation of new and preservation existing of MDI credit unions. For example, one of the priorities of the NCUA Chairman Rodney E. Hood is to enhance and modernize the federal credit union chartering process with the goal of promoting greater financial inclusion.

The NCUA has also developed initiatives to create opportunities to promote financial education and financial inclusion, and foster an environment where those with low-to-moderate incomes, people with disabilities, and the otherwise underserved have access to affordable financial services.

Today, one of the many ways that credit unions fulfill their mission is through offering payday alternative loans or PALs loans. While many credit unions offer some type of safer small-dollar loan product to their members, in 2010, the NCUA began authorizing a unique PALs program for federal credit unions. These PALs loans have fewer fees and are offered at low rates capped at 28 percent – which is nothing close to the triple-digit rates charged by online and storefront payday lenders. Furthermore, as member-owned, not-for-profit financial cooperatives, credit unions play a key role in investing in their members' financial futures. They provide access to financial education, the possibility of establishing savings, and other services to ensure their members are on a pathway to financial stability. In fact, over 80 percent of federal credit unions offering PALs loans report their members' payments to credit bureaus – a critical step towards borrowers building credit increasing access to mainstream financial services and breaking the cycle of debt.

As of the end of 2018, 502 federal credit unions reported that they made PALs loans during the year. These credit unions reported making 211,574 loans amounting to $145.2 million in PALs during the year. In comparison, in 2012, 476 federal credit unions reported that they made 115,809 loans amounting to $72.6 million of lending during the year.

Earlier this year, the NCUA Board expanded the PALs program to give federal credit unions additional flexibility to offer their members meaningful alternatives to traditional payday loans while maintaining many of the key structural safeguards of the original PALs program.

Small credit unions, low-income designated credit unions, and MDI credit unions all play a critical role in providing affordable financial services to millions of Americans. Often, these credit unions are the only federally insured financial institutions in underserved and rural communities.

The NCUA is committed to doing everything it can to help MDI credit unions continue, grow, and thrive. As you consider further legislative initiatives to provide new avenues for financial institutions to grow and enhance their services, please keep in mind the

NCUA
National Credit Union Administration

unique structure of credit unions. Oftentimes, legislation may be drafted with larger, shareholder-owned financial institutions in mind and can pose a challenge for credit unions, which are generally much smaller institutions, and, by design, structured as non-profit, member-owned cooperatives with a different statutory and regulatory framework than that of the banking regulators.

As always, the NCUA would be happy to work with you on any future legislative initiatives.

Thank you for the opportunity to provide an update on MDI credit unions and to discuss the NCUA's work in this area.

I look forward to your questions.

Statement of

Betty J. Rudolph, National Director
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Federal Deposit Insurance Corporation

on

An Examination of Regulators' Efforts to Preserve and Promote Minority Depository Institutions

before the

Subcommittee on Consumer Protection and Financial Institutions

of the

Committee on Financial Services
U.S. House of Representatives

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2128 Rayburn House Office Building

Chairman Meeks, Ranking Member Luetkemeyer, and members of the Subcommittee, the Federal Deposit Insurance Corporation (FDIC) appreciates the opportunity to testify today on the state of minority depository institutions (MDIs), the FDIC's efforts to preserve and promote MDIs, as well as actions that the agency will be taking to help reverse the decline in these institutions.

I serve as the FDIC's National Director for Minority and Community Development Banking. In this capacity, I ensure that the FDIC's MDI program is integrated throughout the agency's supervision, consumer compliance, and resolution functions.

Minority Banker Engagement with the FDIC Board

In the FDIC's *2018 Annual Report*, Chairman McWilliams noted in her introductory message that the FDIC would increase its engagement with MDIs.[1] As part of that commitment, in 2018 the FDIC appointed additional minority bankers to the FDIC Board's Advisory Committee on Community Banking (CBAC).[2] We believe that this will be an important way to help facilitate greater engagement and information sharing between MDIs and non-MDIs.

This year, the FDIC announced several new initiatives to increase engagement with MDIs, including the formation of a new MDI Subcommittee to the CBAC to highlight MDIs' efforts in their communities and to provide a platform for MDIs to exchange best practices.[3] The new subcommittee will focus on the issues, tools, and resources that are unique to MDIs, and the

[1] *See* FDIC, *2018 Annual Report*, Message From the Chairman, available at https://www.fdic.gov/about/strategic/report/2018annualreport/ar18chairman.pdf.
[2] *See* "FDIC Announces New Members for the Advisory Committee on Community Banking," PR18073 (October 10, 2018), available at https://www.fdic.gov/news/news/press/2018/pr18073.html.
[3] *See* "FDIC Hosts Interagency Conference Focusing on Minority Depository Institutions, Announces New MDI Initiatives and Publishes Results of New MDI Study," PR19054 (June 25, 2019), available at https://www.fdic.gov/news/news/press/2019/pr19054.html.

FDIC hopes that the subcommittee will help us identify additional opportunities to tailor regulatory requirements and supervisory expectations for MDIs with less complex balance sheets while maintaining overall safety and soundness. The inaugural meeting for this subcommittee will be in early December.

<u>FDIC Research on Size, Demographics, Financial Performance, and Social Impact of MDIs</u>

In June, the FDIC published a comprehensive research study, *Minority Depository Institutions: Structure, Performance, and Social Impact*,[4] that explores structural changes among FDIC-insured MDIs, their role in the financial services industry, and their impact on the communities they serve. Compared with the total of more than 5,400 insured financial institutions, the number of MDIs is small. From 2001 up to the 2008 financial crisis, the number of MDIs increased from 164 to 215 before declining to 149 as of the end of 2018. The number of African American MDIs declined by more than half during this period, from 48 (30% of MDIs) in 2001 to 23 (15% of all MDIs) at the end of 2018. In 2019, one African American MDI merged with a non-MDI and one recently failed, reducing the number of African American MDIs to 21 (14% of all MDIs). However, the number of Native American, Hispanic, and Asian MDIs increased during the same period. Overall, MDIs declined more modestly relative to the consolidation trend experienced by most of the banking industry.

Over this period, MDIs were about two and a half times more likely to fail than non-MDI banks. Most of the MDI failures occurred during the 2008 crisis or shortly thereafter. They were generally smaller institutions, and many served communities that faced economic challenges even before the crisis. Voluntary mergers were the greatest contributing factor to the

[4] *See* FDIC, *Minority Depository Institutions: Structure, Performance, and Social Impact*, available at https://www.fdic.gov/regulations/resources/minority/2019-mdi-study/full.pdf.

consolidation of MDIs. However, most of the assets of the 118 MDIs acquired through mergers or failures were acquired by other MDIs.

MDI financial performance has improved over the past five years, particularly in terms of loan performance. While MDIs tend to outperform non-MDI community banks in revenue generation, they have much higher expenses, particularly among smaller MDIs. As a result, MDIs have long underperformed other community and non-community banks when measured by the cost to bring in a dollar of revenue. However, that disadvantage has narrowed in recent years.

Since the recession, credit quality has improved greatly across the banking industry. For MDIs, loan performance has improved sharply, providing the most significant boost to post-recession MDI earnings. In 2019, the number of profitable MDIs increased to its highest level since before the crisis, but the percentage of unprofitable MDIs is significantly higher compared to the broader banking industry. Unprofitable MDIs are generally smaller and located in urban areas that experienced significant distress during the crisis or smaller rural markets with ongoing economic challenges.

Our research study also highlighted information that further demonstrates the essential role that MDIs play in serving low- and moderate-income (LMI) customers and minority customers. For example, 69 percent of the median African American MDI's customers live in LMI areas; 45 percent of the median Asian MDI's customers reside in LMI areas; and 30 percent of the median Hispanic MDI's customers live in LMI areas. Non-MDIs do not have the same reach into these communities. For the median non-MDI community bank, 21 percent of customers live in LMI areas.

MDIs originate a greater percentage of home mortgages to borrowers in LMI census tracts. They also originate a greater share of Small Business Administration loans in census tracts with larger shares of minority populations than non-MDIs. MDIs are vital service providers for minority populations, which have higher percentages of unbanked households than other groups.

The FDIC's *2017 National Survey of Unbanked and Underbanked Households*[5] shows that nearly 17 percent of African American households and 14 percent of Hispanic households are unbanked, meaning they do not have an insured bank account. MDIs that serve these communities are well positioned to address the issue of underbanked and unbanked consumers.

FDIC's Initiatives to Preserve and Promote MDIs

Section 308 of FIRREA[6] established five goals for the FDIC and other banking regulators: preserve the number of MDIs; preserve the minority character of an MDI in cases involving merger or acquisition of the MDI; provide technical assistance to help prevent insolvency of MDIs; promote and encourage creation of new MDIs; and provide training, technical assistance, and educational programs for MDIs. The FDIC Board of Directors adopted a *Policy Statement Regarding Minority Depository Institutions*[7] to guide the agency's efforts to support MDIs and meet these statutory goals in 1990 and revised the policy in 2002.

We are working on proposed changes to our MDI policy statement to emphasize current examiner instructions related to MDI supervision. For example, examiners are instructed to take

[5] *See* FDIC, *2017 National Survey of Unbanked and Underbanked Households*, available at https://www.fdic.gov/householdsurvey/.
[6] Pub. L. 101-73, 103 Stat. 183, 353 (August 9, 1989).
[7] *See* FDIC, *Policy Statement Regarding Minority Depository Institutions*, available at https://www.fdic.gov/regulations/laws/rules/5000-2600.html#fdic5000policyso.

into account an MDI's unique characteristics and core objectives – in addition to the risk it poses to the Deposit Insurance Fund – when evaluating the institution's financial condition and risk management practices. Once we have a completed draft revised policy statement, we will issue it for public notice and comment before the FDIC Board of Directors takes a final vote on an updated policy.

Outreach, Technical Assistance, Training and Education

The FDIC carries out an active program of regular outreach, technical assistance, and training and education to provide MDIs with the tools and resources to be profitable and serve their communities. In 2018, we provided technical assistance 149 times upon request by an MDI. In 2019, we conducted six roundtables and hosted the banking agencies' biennial MDI/Community Development Financial Institution (CDFI) Conference. We have had strong participation in the roundtables and the conference, which was attended by 200 minority bankers, trade group representatives and others. These events included presentations on important topics such as the new current expected credit losses accounting methodology, Bank Secrecy Act compliance, cyber security and innovation. Minority bankers have given us very positive feedback about the roundtables and the conference.

Partnerships between MDIs and Other Banks

The FDIC's 2019 initiatives focus on building capacity in MDIs by promoting collaboration with the broader banking industry and sharing best practices. In June, the FDIC welcomed 10 large banks and seven MDIs to Washington for a roundtable to discuss potential partnerships. Each participant had outlined in advance the types of partnerships it was seeking and, during the roundtable, MDIs and larger banks met one-on-one to explore collaboration opportunities. Following the roundtable, several large banks expressed appreciation for the opportunity to find mutually beneficial partnerships and eagerness to begin working with MDIs to help them have a greater impact on their communities. One of the large banks drafted a proposal to expand its partnerships beyond the seven MDIs at the roundtable. One of the MDIs reported that it had partnered with three larger banks from the event on a variety of technical assistance efforts. Based on the success of the June event, the FDIC held similar roundtables in Atlanta and Chicago this year and plans to host additional events in the Midwest and on the West Coast next year.

At our roundtables and in discussions with large bank Community Reinvestment Act (CRA) officers, we are emphasizing the potential credit for which large banks can be considered under the CRA when they partner with MDIs. We are also promoting the *Resource Guide for Collaboration with Minority Depository Institutions* that we published in 2017.[8] We plan to engage our network of community affairs specialists around the country to discuss these benefits at other outreach events. Because we understand that partnerships with MDIs can be a useful strategy in serving the convenience and needs of their communities under CRA, we have always considered such partnerships in the CRA evaluation. To help ensure that examiners are appropriately providing banks with CRA consideration of partnerships with MDIs, we have recently updated our CRA examiner instructions and training to ensure examiners document this CRA consideration in the banks' CRA Performance Evaluation in a consistent manner.

[8] Available at https://www.fdic.gov/regulations/resources/minority/collaboration/resource-guide.pdf.

Preserving the Minority Character of Failing MDIs

One of the FDIC's statutory goals is to preserve the minority character of an MDI in the event of failure. Our research study showed that, over the 17-year period from 2001 to 2018, most of the assets of merged and failed MDIs have been acquired by other MDIs. Of the nearly $23 billion in failed bank assets during this period, 86 percent were acquired by another MDI. While this is a positive result, the FDIC continues to explore new ways to meet our statutory goal.

One of the requests the FDIC received from our outreach with MDIs was to conduct additional training on our franchise marketing process for failing MDIs. Since October 2018, the FDIC has held workshops at four annual regional MDI roundtables, a Native American MDI meeting, and an interagency MDI conference. We also held two webinars for MDIs across the country and a dedicated webinar for an MDI trade group. Our goal in providing these sessions is to help MDIs become more competitive in the bidding process. In addition, we provide one-on-one technical assistance to bidders before, during, and after the bidding process. During a recent transaction, we provided in-person technical assistance to five MDI prospective bidders at their request.

One area we identified for modification is our process for marketing failing MDIs. At the start of a new marketing initiative, we now provide a two-week window exclusively for MDIs to review bid information before other banks. At the expiration of the two-week window, all other qualified institutions on the bid list are given access to bid information, and later bids are received from all qualified institutions (MDI and non-MDI) wishing to submit bids. We believe this initiative will help us preserve the minority character of a failing MDI and successfully used this approach for the most recent MDI failure earlier this month.

Opportunity Zones

Another FDIC initiative is to provide tools and resources to facilitate MDI participation in economic revitalization in the Opportunity Zones created pursuant to the 2017 tax law. Nearly 31 percent of MDI branches are located in designated zones, compared to 14.6 percent for non-MDI community banks. While MDIs may not qualify for tax incentives or invest in a Qualified Opportunity Fund (QOF) unless they have capital gains, we believe that MDIs are well-suited to partner with other participants in the zones. For example, MDIs may offer debt financing to complement revitalization projects and local businesses that receive equity from QOFs. MDIs know these communities and can act as brokers, bringing projects to QOFs and helping to structure transactions.

To highlight the role that MDIs can play, the FDIC recently developed a website to serve as a clearinghouse of useful information for banks, investors, and opportunity fund managers. The website includes interactive maps showing the location of FDIC-insured MDIs overlaid on the zones, as well as links to comprehensive information on investment funds and state and local initiatives to complement and support economic revitalization in these communities. We plan to launch the site in the next 60 days. In addition, we developed a paper showing the roles that MDIs and other banks can play in opportunity zones.

Conclusion

Many MDIs, like the community banking sector overall, face challenges from the evolving financial services landscape. The boards and management of institutions must profitable and serve their communities. For many MDIs, these challenges can be amplified if they serve economically distressed communities that do not fully recover during economic growth cycles. As the supervisor of nearly 100, or two-thirds of all MDIs nationwide, the FDIC is committed to promoting and sustaining the vibrant role these banks play in their communities. Increasing our engagement with MDIs enables us to understand their unique needs and provide tools and resources so they can help create jobs, grow small business, and build wealth in their communities. Thank you for the opportunity to testify today. I look forward to answering your questions.