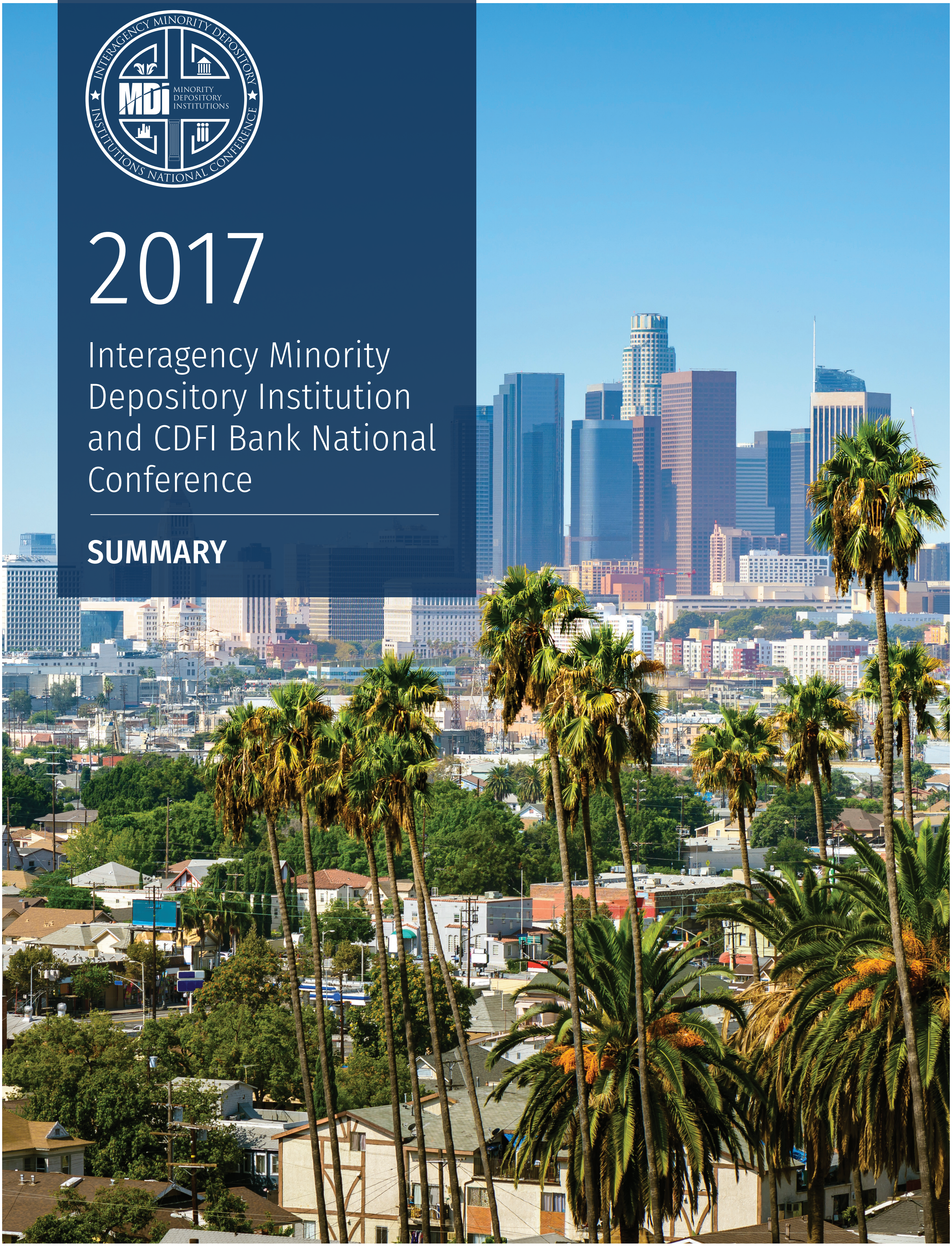


# 2017

## Interagency Minority Depository Institution and CDFI Bank National Conference

**SUMMARY**


The views expressed here are solely those of the conference participants and do not necessarily reflect the views of the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, or the Federal Reserve Bank of Philadelphia. The titles of all the speakers and panelists reflect the titles these participants had at the time of this conference; titles have not been updated to reflect current positions.

Federal Reserve Bank
of Philadelphia

The Federal Reserve Bank of Philadelphia produced this document with the assistance of the Board of Governors, the FDIC, and the OCC.

# TABLE OF CONTENTS

## OVERVIEW OF THE 2017 CONFERENCE

The 2017 Interagency Minority Depository Institution and CDFI Bank National Conference was held April 5–6, 2017, at the Los Angeles Branch of the Federal Reserve Bank of San Francisco. This biennial conference was hosted by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC) for the benefit of FDIC-insured minority depository institutions (MDIs) and community development financial institution (CDFI) banks to help preserve and promote their mission.

The conference brought together chief executive officers (CEOs), board members, and staff members of MDIs and CDFI banks from across the country. The conference also drew researchers and federal agency representatives with an interest in preserving and strengthening MDIs and CDFI banks.

FDIC Chairman Martin J. Gruenberg, Federal Reserve Board Governor Jerome H. Powell, and Comptroller of the Currency Thomas J. Curry welcomed minority and CDFI bank executives and other senior Fed officials to explore how to "Expand the Impact: Increase Capacity and Influence" of these institutions.

The conference encouraged interactive discussion, provided a valuable networking opportunity, and set the stage for further discussions on the importance of MDIs and CDFIs to the communities they serve.

The conference covered a diverse range of topics that included:

- updates from senior officials from federal agencies on resources, programs, policies, and research that can help minority and CDFI banks achieve goals;
- bank CEOs telling their stories, communicating their strategies and successes, and making recommendations to the industry, federal policymakers, and others;
- interactive workshops that invited CEOs and other key partners to explore and discuss a variety of issues and opportunities; and
- research on emerging trends among MDIs.

The discussions from the plenaries, panel discussions, and workshops are summarized in this publication. Texts of the prepared remarks of the agency principals and links to key documents that might be useful are also included. A video of conference highlights can be found at www.fedpartnership.gov/-/media/videos/2017mdipromo.mp4?la=en.


The 2017 Interagency Minority Depository Institution and CDFI Bank Conference at the San Francisco Federal Reserve's Los Angeles Branch brought together members of the MDI and CDFI industry, regulators, and researchers.

# OPENING PLENARY SESSION

Opening the conference, Comptroller of the Currency Thomas J. Curry, Federal Depository Insurance Corporation Chair Martin J. Gruenberg, and Federal Reserve Board Governor Jerome H. Powell held a critical conversation about each agency's role in preserving and promoting MDIs. After brief opening remarks from each principal, all leaders engaged in an interactive dialogue, followed by a question-and-answer period with bank CEOs. They reflected on the key economic challenges facing communities, resources available to MDIs, actions taken by the agencies to preserve and promote MDIs, and their thoughts for moving forward.

The following pages (7–10) are the opening remarks from each of the principals.

Panelists

- *Thomas J. Curry, Comptroller of the Currency*
- *Martin J. Gruenberg, Chairman, Federal Deposit Insurance Corporation*
- *Jerome H. Powell, Governor, Federal Reserve Board*

*Moderator: Donna Gambrell, former director, CDFI Fund, and director, Southern Bancorp*


Donna Gambrell, director of Southern Bancorp and a former director of the CDFI Fund, served as moderator for the opening session of the conference.


Comptroller of the Currency Thomas J. Curry, Federal Depository Insurance Corporation Chairman Martin J. Gruenberg, and Federal Reserve Board Governor Jerome H. Powell discussed the agencies' roles in preserving and promoting MDIs.

## THOMAS J. CURRY, COMPTROLLER OF THE CURRENCY

Good morning. I'm pleased to join you and my fellow regulators to discuss the importance of community banking, particularly our minority depository institutions and community development financial institution banks — or, as we refer to them, MDIs and CDFIs.

Your institutions serve as the heart and soul of banking in many communities that have limited access to capital, credit, and responsible financial services. Your histories are rich in economic and community development.

By providing loans to small businesses, mortgages to consumers, and other banking services in these communities, you have proven yourselves to be committed stakeholders and neighbors. The banking services you provide help communities grow. Events like this conference that bring us together outside of Washington are important for reminding regulators of our real purpose — ensuring a safe and sound banking system that responsibly serves consumers, businesses, and communities.

Our nation and economy are stronger when MDIs and CDFI banks are a healthy, vibrant part of our financial services industry. That is why this conference and the information you take away are important resources to support the preservation and promotion of your banks. As a regulator at the state and national levels for more than three decades, I have a long-term personal focus and commitment to the vitality of MDIs and CDFIs.

Over the past year, the Office of the Comptroller of the Currency has held several roundtables to bring MDIs and CDFIs together with larger financial institutions to identify where they can collaborate and create mutually beneficial relationships. I have been very impressed by the level of enthusiasm and entrepreneurial spirit that the participants in these sessions have been bringing to the table, and those talks have already led to several concrete initiatives that we hope will grow over time.
The OCC has been very proactive in promoting the value of collaboration among community banks, particularly among minority- and women-owned institutions.

In 2015, the agency published a paper discussing specifically how community banks could explore the potential benefits of collaboration, structure collaborative arrangements, and maintain appropriate risk management to increase the likelihood of successful collaboration.[1] Then in August 2016, we published a fact sheet on ways that banks — both majority-owned and minority- or women-owned — can partner with minority- and women-owned financial institutions and how banks may receive Community Reinvestment Act consideration for doing so.[2] These documents help lay out our expectations clearly in this area to encourage more collaboration and effective partnerships. I look forward to discussing this effort and to sharing information about other OCC supervisory priorities and our responsible innovation initiative during our conversation today.

Thomas J. Curry called MDIs and CDFIs "the heart and soul of banking" for communities that have limited access to financial services, capital, and credit.

The U.S. banking system is composed of banks of different sizes and approaches, with owners and management of many different backgrounds. This diversity is critical in the ability of the banking sector to adapt to the needs of a diverse nation. A one-size-fits-all approach will not produce the kinds of innovation and responsiveness to customer needs that are necessary for our efforts to be successful. By building collaborative relationships among the institutions in our communities, and recognizing the strengths each institution brings to the table, we put ourselves in a position to meet our responsibilities of a safe, sound, and inclusive financial system. I am optimistic about the future of MDIs and CDFIs. This conference promises to provide a great deal of information and a chance for us to interact with and learn from one another. I am confident that everyone will find something useful to take back to their banks.

I look forward to catching up with the many familiar faces I see here and to our discussion.

1. See "An Opportunity for Community Banks: Working Together Collaboratively," January 13, 2015, www.occ.gov/publications/publications-by-type/other-publications-reports/pub-other-community-banks-working-collaborately.PDF.

2. See "Partnerships With Minority- and Women-Owned Financial Institutions, Low-Income Credit Unions," *Community Developments Fact Sheet*, August 2016, www.occ.gov/topics/community-affairs/publications/fact-sheets/fact-sheet-partnerships-mwo-low-income.pdf.

## MARTIN J. GRUENBERG, CHAIRMAN, FDIC

Good morning and welcome. It is good to be with you again. We have traditionally held this conference in Washington — I have to say it is nice to visit another part of the country, and we thank the San Francisco Federal Reserve Bank Branch here in Los Angeles for hosting us.

Minority banks have long played a vital role in their communities and have gained unique expertise in serving populations that often do not have adequate access to banking services. An FDIC study found that the markets served by MDIs include a higher share of populations living in low- or moderate-income census tracts, as well as a higher share of minority populations.[3] Additionally, MDIs originate a significantly larger share of their mortgages to low- or moderate-income and minority borrowers than do non-MDI community banks.

Today's minority banks are a diverse group of institutions, owned or managed by individuals representing a range of minority communities, including African American, Hispanic, Asian American, Native American, and Alaskan Native.

Martin J. Gruenberg said the FDIC's MDI program aims to encourage the creation of MDIs and help protect the solvency of these institutions, and is an integrated part of its supervision and consumer protection work.

It is true that the number of MDIs has declined since the onset of the financial crisis and has continued to decrease in recent years. As of December 31, there were 157 MDIs in the United States and its territories, down from 215 institutions at the end of 2008 — the peak for the 15-year period for which we have data.

However, it is important to note that MDIs' share of the total industry — in terms of the number of institutions and assets — generally has remained steady. MDIs account for 2.7 percent of the total number of insured institutions, and total assets at MDIs are more than $208 billion and continue to grow.

3. Eric C. Breitenstein, Karyen Chu, Kathy Kalser, and Eric W. Robbins. "Minority Depository Institutions: Structure, Performance, and Social Impact," *FDIC Quarterly,* 8:3 (2014), www.fdic.gov/bank/analytical/quarterly/2014-vol8-3/mdi-study.pdf.

Overall, minority banks' performance mirrors that of the banking industry as a whole, which has seen recent growth in loan and deposit balances, as well as profitability. Most minority banks are community banks, and this sector of the industry has been expanding small loans to businesses at more than twice the rate of noncommunity banks, and has seen a decline in net charge-offs.[4] More than 60 percent of MDIs saw their annual net income rise from 2015 to 2016. Last year, these institutions saw the ratio of loans past due to the total loan pool fall to its lowest level since 2008.

Still, the FDIC recognizes the challenges facing MDIs today. While the share of profitable MDIs to the total of MDIs increased to its highest level since before the crisis at the end of last year, nearly 15 percent of MDIs were *un*profitable, a percentage that was more than three times that seen at community banks and at all banks. The unprofitable MDIs are mostly smaller institutions, many of which are located in urban areas that experienced significant economic distress during the recent financial crisis.

The FDIC is also looking closely at the issue of succession planning at community banks and MDIs. It is essential that these institutions develop a pipeline of talented junior managers who will be able step in when senior bank managers begin to retire. Without adequate succession planning, the viability of a bank could be at risk. The FDIC is particularly focused on this issue now, and I welcome your ideas for ways we can further our work.

The FDIC's MDI program is fully integrated into our supervision, consumer protection, and receivership divisions. As part of this program, the FDIC keeps at the forefront our statutory goals to preserve the minority character in cases involving a merger or acquisition of an MDI, to help prevent insolvency of MDIs, and to encourage the creation of new MDIs.

4. "Quarterly Banking Profile: Fourth Quarter 2016," *FDIC Quarterly,* 11:1 (2017), www.fdic.gov/bank/analytical/quarterly/2017-vol11-1/fdic-v11n1-4q16.pdf.

To learn more about the characteristics of recent merger and failure activity, the FDIC recently updated through 2016 the information in our 2014 research study that captures the impact of structural changes on the assets controlled by MDIs.[5] Between 2002 and 2016, the number of voluntary mergers, at 72, was nearly double the number of failures, at 39. Among MDIs that voluntarily merged or consolidated during that same period, 54 percent of the institutions and 76 percent of total assets were acquired by another MDI. Among MDIs that failed between 2002 and 2016, 38 percent of the institutions and 86 percent of total assets were acquired by another MDI. Although the rate of acquisition by another MDI was higher for voluntary mergers than for failures, the FDIC has worked hard to keep MDI banking relationships within their communities for each failure.

After the opening remarks, session participants had the opportunity to ask the speakers questions.

In the event of a potential MDI failure, the FDIC contacts all MDIs nationwide that qualify to bid on failing institutions. The FDIC solicits qualified MDIs' interest in the failing institution, discusses the bidding process, and provides technical assistance regarding completion of the bid forms. For example, during 2016, the FDIC offered technical assistance to three MDIs that were considering a joint bid on a failing institution. The assistance covered the FDIC's experience with structured transactions for possible use with failed bank assets and provided guidance on the technical aspects of alliance bidding.

As part of the FDIC's MDI program, we continually seek to identify initiatives to enhance our ability to carry out our commitment to MDIs. These initiatives often involve training, technical assistance, and education programs for MDIs.

Last year, the FDIC provided 135 technical assistance sessions to minority banks covering approximately 66 risk management and compliance topics. Our regional offices also held outreach, training, and educational programs for MDIs through conference calls and regional banker roundtables. We also last year cohosted with the Office of the Comptroller of the Currency and the Federal Reserve a webinar on strategic planning attended by approximately 50 MDIs.

Further, as part of our efforts to promote the creation of new banks, the FDIC last year began hosting sessions across the country for prospective bankers, attorneys, and other interested parties to discuss the process for starting a new bank. We also issued a handbook that provides detailed information on the process for applying for deposit insurance. Since last year, the FDIC has received several inquiries from groups interested in organizing a *de novo* MDI.

We are also working with the other agencies on a resource guide to encourage collaboration among MDIs and between MDIs and other institutions. This publication will highlight examples of collaboration with and among MDIs, the benefits of partnering with MDIs, and Community Reinvestment Act considerations.

Let me conclude by reaffirming the FDIC's statutory obligation and commitment to supporting minority depository institutions. I look forward to our discussion this morning.

5. See the FDIC's *Preservation and Promotion of Minority Depository Institutions – Report to Congress for 2016*, page 7, www.fdic.gov/regulations/resources/minority/congress/report-2016.pdf.

# JEROME H. POWELL, GOVERNOR, FEDERAL RESERVE

Thank you, Donna. Good morning and welcome to the Federal Reserve. We are honored to have you here today as we host the biennial Interagency Minority Depository Institution and Community Development Financial Institution Bank Conference. My colleagues from the Federal Reserve Bank of San Francisco and I are especially honored to be hosting you in Los Angeles. As you probably know, all of the previous Interagency MDI conferences have been held on the East Coast, mainly in Washington, D.C. However, because the largest concentration of minority banks is located here in Southern California, it seemed natural to bring this conference west.

The Federal Reserve seeks to support MDIs in a number of ways, including our Partnership for Progress, our program for outreach and technical assistance to MDIs. Both the Office of the Comptroller of the Currency and Federal Deposit Insurance Corporation share our goal of preserving and promoting MDIs because you are critical institutions to the communities you serve and the larger U.S. economy. And I note that Congress has also recognized your importance, mandating our respective agencies to help support MDIs. From the perspective of someone who sits on the Federal Open Market Committee, I see many ways that the Federal Reserve can not only support MDIs but is itself also supported by them, and I would like to talk about four of these ways today.

Jerome H. Powell explained how the Federal Reserve supports MDIs and CDFI banks and receives support from them.

First, half of our monetary policy mandate is maximum sustainable employment. That means that we need to be aware of employment trends across all communities in America, not just the top-line averages, since unemployment rates vary significantly across races and geographies. For the first time, last year, we put into our *Monetary Policy Report* to Congress a section that detailed how post-recession economic gains have been distributed across races.[6] You, as MDIs, are committed to understanding and serving these diverse communities. I know that, for example, your small business loans to minority business owners make a difference in the employment rates of minority communities. I thank you for that work, and we will continue to work closely with you to better understand the employment dynamics of underserved and minority communities.

Second, the Fed is unique as a research institution. We have many economists on staff and therefore have the ability to engage in wide-ranging research that may be useful to your firms and communities. Specific to MDIs, we commissioned two new research papers for this conference to better understand trends in the MDI banking field. In addition, we have two new research papers on MDIs out of the Chicago Fed, one that explores MDI primary markets, and one that looks at MDI small business lending. Tomorrow you'll have an opportunity to hear about and discuss this new research, which will be finalized later this year.

Third, we have a great deal of expertise in community banks, which I know most of you are. Of the 829 state member banks that the Federal Reserve directly supervises, 97 percent are community banks. Therefore, we spend a good deal of time thinking about the issues facing community banks and how to help them be competitive in today's economy. I recognize that as MDIs you share many of the same issues as other community banks, and also some issues that are unique to your sector. We want to work with you to better understand those issues and to help you, where possible, to better serve your communities.

Fourth, and last, the Fed has a unique Community Development function that seeks to mobilize ideas, networks, and approaches that address a wide range of community and economic development challenges. One thing that makes our Community Development function unique is that we have deep geographic coverage at the 12 Reserve Banks and their Branch locations. Last year, we combined the resources of our Supervision and Regulation division with those of our Community Development department to staff our Partnership for Progress. By bringing in Community Development, we brought in a new perspective, one that has an explicit focus on low- and moderate-income communities. We know that you serve many of these same individuals and communities, and we are asking our Community Development staff around the country to reach out to you to gather your perspectives on the communities you serve to identify emerging issues of which we should be aware.

In closing, your institutions are important to the American economy and our understanding of that economy. Therefore, on behalf of the Federal Reserve, I'd like to once again thank you for the work you do in your communities and welcome you to Los Angeles.

6. Board of Governors of the Federal Reserve System, *Monetary Policy Report* (Washington: Board of Governors, June 21, 2016), www.federalreserve.gov/monetarypolicy/files/20160621_mprfullreport.pdf.

# GENERAL SESSION 1: CEO PERSPECTIVES ON CUSTOMERS, BUSINESS MODELS, EXPECTATIONS FOR THE FUTURE

## OVERVIEW

MDIs have made significant gains since the financial crisis, while the financial services field continues to evolve. In this session, we heard from several MDI and community development financial institution bank CEOs about their experiences over the past 10 years, the strategies and assets they have used to guide their institutions, and their perspectives on the opportunities and challenges facing their institutions.

Panelists

- *Wayne Bradshaw, President and CEO, Broadway Federal Bank, Los Angeles*
- *Asif Dakri, Vice Chair and CEO, Wallis State Bank, Houston*
- *Joanne Kim, President and CEO, CBB Bank, Los Angeles*
- *Rebeca Romero Rainey, Chair and CEO, Centinel Bank of Taos, Taos, NM*

*Moderator: Robert W. Mooney, retired national director, Minority and Community Development Banking, FDIC*

## GENERAL DISCUSSION

In this session, four CEOs discussed how they managed their institutions through the aftermath of the financial crisis, emerging with profitable and growing institutions, and described how they viewed the current and evolving environments in which they are operating and will operate.

The four CEOs acknowledged that they worked in very different markets, with some of the markets being hit more severely and recovering more slowly from the recession. For all, it was difficult. The CEOs discussed common approaches to managing through the crisis, including addressing problems and making changes when they were needed, building on community and customer relationships, and remaining alert to and confident in the opportunities that emerged in their communities.

The CEOs stressed the importance of finding out what they were good at and being the best at what they did. The banks in urban markets could focus their efforts on more narrow niches that they then developed and refined to be best in class. Others took a less specialized but somewhat nontraditional approach to their markets.

Joanne Kim (left), of CBB Bank in Los Angeles, and Wayne Bradshaw (center), of Broadway Federal Bank in Los Angeles, were among the CEOs on the panel moderated by Robert W. Mooney (right).

The banks varied in their reliance on ethnic markets. One bank in a rapidly changing area focused on a geographic area and a needed asset (affordable multifamily housing) rather than its traditional ethnic identity. Other banks acknowledged their strengths with ethnic markets but talked about their efforts to appeal to the broader community. Another discussed the challenges of appealing to subsequent generations of customers, particularly as those younger customers become more immersed in mainstream cultures and technologies.

The CEOs recognized the importance of the technological changes affecting the banking industry and the challenges small institutions faced in keeping up with industry uncertainty.

# GENERAL SESSION 2: SUPERVISION UPDATE

## OVERVIEW

As the industry continues to evolve, changing risk exposure and regulatory pressures stay top-of-mind for all MDI bankers. At this session top agency officials talked about current issues and evolving trends in today's community bank environment. This session addressed key risks and issues that bankers should be aware of, as well as topics that the agencies will focus on over the next few years.

Panelists

- *Toney M. Bland, Senior Deputy Comptroller for Midsize and Community Bank Supervision, Office of the Comptroller of the Currency*
- *Suzanne Killian, Senior Associate Director, Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System*
- *Jim Watkins, Senior Deputy Director, Division of Risk Management Supervision, Federal Deposit Insurance Corporation*

*Moderator: Arthur W. Lindo, Senior Associate Director, Federal Reserve Board of Governors*

## GENERAL DISCUSSION

In this conversation with senior regulators, a variety of topics were discussed, from strong risk management practices to a deeper discussion of regulatory issues affecting MDIs.

MDIs play a critical role in their local communities, and many are striving to identify innovative ways to serve their customers. Minority bankers expressed their thoughts about how serving their customers can, at times, be more challenging than traditional, mainstream banking because of the economic challenges and cultural nuances of their customer bases.

Regulators highlighted topics that were pertinent to the MDI bankers such as updates on underwriting standards, commercial real estate concentrations, strategic planning, succession planning, liquidity and funds management, consumer compliance risk, and third-party risk management. The regulators stressed the importance of strong risk management programs and adequate oversight.

A central piece of the discussion centered on the examination process. Some MDIs felt that as smaller institutions, their exams were more frequently staffed with examiner trainees, while others encouraged the regulators to promote consistency among examination staff and greater knowledge around cultural issues for MDIs. They also shared that they are often a customer's first connection to the mainstream banking industry and that they are much more hands-on with the customer relationships. MDIs were interested in hearing more about how they could be better prepared to address supervisory and regulatory issues and expressed concerns about how they balance the challenge of serving their communities with increased banking regulations.


Suzanne Killian (left) of the Board of Governors and Jim Watkins of the FDIC talked about regulatory issues and risk exposure.

Regulators shared their plans to enhance ongoing two-way communication between regulatory agencies and bankers and that this can help to address many of the questions raised by MDIs. The regulators acknowledged the challenges that some MDIs face and stressed that the goal was to provide dialogue and guidance to help the industry meet the financial needs of its communities.

# GENERAL SESSION 3: NEW RESEARCH ON MINORITY DEPOSITORY INSTITUTIONS

## OVERVIEW

There has been relatively little MDI-specific research produced in recent years. In an attempt to counter this, the Federal Reserve commissioned two new pieces of MDI research for this conference and produced new in-house papers. This session included an overview of the new research, as presented by the authors, as well as time for questions from the audience. The papers[7] presented were:

Panelists

- *Wei Li, Professor, Arizona State University*
  "Minority Depository Institutions at the Dawn of the 21st Century"
- *Breck Robinson, Associate Professor, School of Public Policy and Administration, University of Delaware*
  "Another Capital Infusion Program: The Case of the Community Development Capital Initiative"
- *Maude Toussaint-Comeau, Senior Business Economist, and Robin Newberger, Senior Business Economist, Federal Reserve Bank of Chicago*
  "Mission-Oriented Bank Closings and Small Business Credit Availability in Low-Income and Minority Neighborhoods"

*Moderator: Anna Alvarez Boyd, Senior Associate Director, Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System*

## GENERAL DISCUSSION

Wei Li started by presenting the main findings of her research, "Minority Depository Institutions at the Dawn of the 21st Century." Her paper examined how MDIs are rooted and localized in different ways with different groups and how they are shaped by different regulatory and institutional contexts. Specifically, she found that MDIs serve coethnics first and utilize ethnic assets, bonding social capital in particular, to develop their customer base while branching out to other groups by developing bridging social capital and broadening their product lines.

Wei Li, a professor at Arizona State University, discussed her research into how MDIs interact differently with different groups and in different regulatory and institutional contexts.

Breck Robinson's study investigated the Community Development Capital Initiative (CDCI) program, the characteristics of the participants, and their subsequent small business lending behavior. Results showed that participating banks were larger, were older, and held less loan loss reserves than a control sample of nonparticipating banks. While participating banks experienced stronger growth in small business lending than a control group of nonparticipating peers, the results did not indicate that the CDCI program led to an increase in small business lending. Overall, participation in the CDCI program did not lead to the desired result: an increase in small business lending by participating banks.

Maude Toussaint-Comeau presented research that conducted an investigation examining the relationship between bank closings and change in credit availability to local areas. The results of the Chicago Federal Reserve Bank's research showed significant frictions in credit supply to small businesses as a result of bank closings, including MDIs and community development financial institutions (mission-oriented banks), which appear potent enough to correlate cumulative declines in aggregate small business lending in certain neighborhoods. They also found evidence that such bank lending supply effects have repercussions on the growth of the number of small businesses. They found this to be true particularly for low- and moderate-income and minority neighborhoods. In part, some of the changes in credit in local areas stem from disruptions in lending relationships or changes in bank branch presence. Some of the effects of bank credit supply shocks are mitigated by policy interventions, such as whether FDIC bank-closing interventions involved loss-sharing agreements and the extent of banking concentration or competition in the local area.

7. All research papers can be found on the Partnership for Progress website, www.fedpartnership.org/federal-reserve-resources/.

# GENERAL SESSION 4: BANKING AND INNOVATION

## OVERVIEW

Technological advances, together with evolving consumer preferences, are reshaping the financial services industry at an accelerated pace. New technology firms have entered the financial service space and are delivering banking services directly to consumers. Although banks have a long history of adapting to new technology and introducing innovative products and services, it is important that banks understand the impact of the evolving landscape on their business strategies and leverage their unique advantages so they can continue to meet the evolving needs of their customers, businesses, and communities.

This plenary session provided MDIs and CDFI banks with an understanding of the evolving financial services landscape and explored examples of successful responses by community and midsize banks.

Panelists

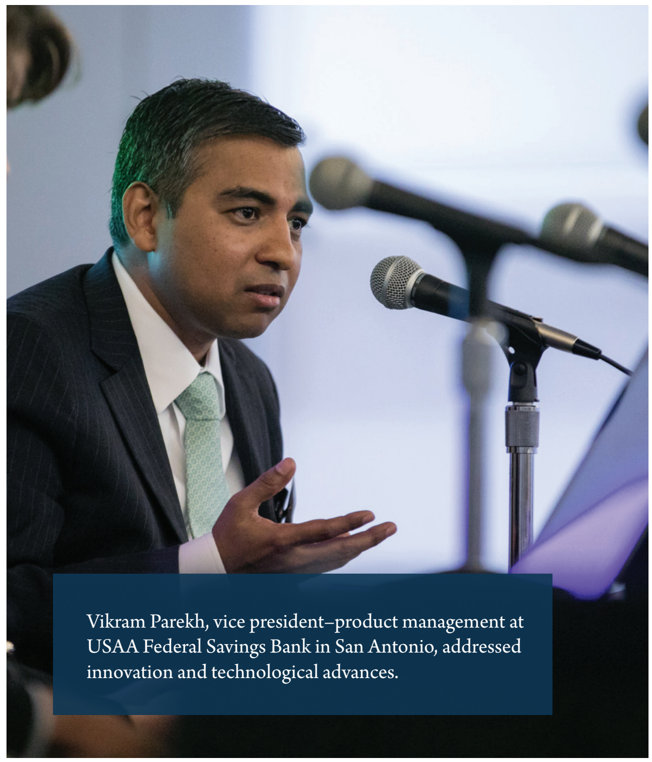
- *Beth Knickerbocker, Acting Chief Innovation Officer, Office of the Comptroller of the Currency*
- *Vikram Parekh, Vice President–Product Management, USAA Federal Savings Bank, San Antonio*
- *David Reiling, CEO, Sunrise Banks, Saint Paul, MN*

## GENERAL DISCUSSION

Banking is undergoing profound changes, and while those changes are enabled by new technologies, they are driven by evolving customer expectations. Customers want, and increasingly require, easy access to the financial products and services that are right for them, and they have a very low tolerance for bank errors. Innovation is also helping mission-driven institutions increase their community impact. Low-cost delivery mechanisms, now available as a result of technological innovations, can help banks provide cost-effective products and services to some of the more underserved members of our communities.

The OCC defines responsible innovation as the use of new or improved financial products, services, and processes to meet the evolving needs of consumers, businesses, and communities in a manner that is consistent with sound risk management and is aligned with the bank's overall business strategy.

The panelists and audience members discussed how MDIs and CDFI banks might approach innovation. Creating solutions to pain points — problems a customer or an institution would like to be addressed — is a good place to start. Banks accustomed to change look for the places in their business strategy that cause the most pain, and they look to innovation for ways to minimize or eliminate that pain. Banks with the ability to mine and monitor data are able to understand their customers and identify opportunities to serve them better. Banking is not just about loans and deposits; it is also about convenience and finding ways to provide products and services the way customers want them delivered.

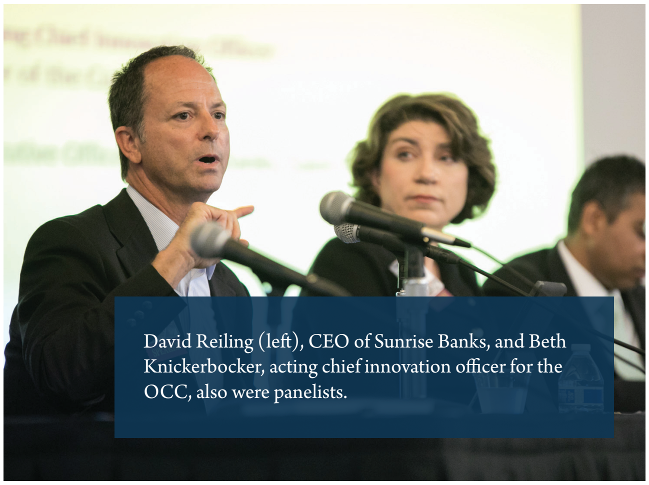


Vikram Parekh, vice president–product management at USAA Federal Savings Bank in San Antonio, addressed innovation and technological advances.

To implement innovation strategies, banks need a process for cultivating, vetting, and strategically choosing which innovations to pursue. Banks may try to do too much or become paralyzed by all the choices. Panelists suggested the following strategies:

- Be strategic about what your bank does and establish priorities on what your bank can realistically accomplish.
- Consider whether it makes sense to develop the innovation internally or to work with partners.
- Understand the risks and capital requirements of what you are planning.
- Test strategies and reevaluate periodically to make sure you are on track.

Innovation needs to support a bank's market niche and its relationship with its customers. Not all customers are going to migrate to digital transactions, and even the earliest digital adopters want choices. Innovation can help banks better understand their customers so they can better tailor products and services to meet their customers' needs. If the innovation is properly executed, customer service staff can shift from processing transactions to providing higher-touch services. Banks should focus on their value proposition. Beyond safe, secure, and convenient transactions, MDI and CDFI bank customers want to know who their banks are and what they value in a banking relationship. This is key to what MDIs and CDFI banks offer their customers.



David Reiling (left), CEO of Sunrise Banks, and Beth Knickerbocker, acting chief innovation officer for the OCC, also were panelists.

How should banks interact with their regulators as new technologies and new relationships are developing? Beth Knickerbocker described how the OCC is finalizing its technical assistance documents and outreach strategy. The agency plans to hold listening sessions with bankers, fintechs, and other stakeholders to hear their views on related guidance and regulation, and evolving technology trends. The OCC is also working to promote the awareness and expertise of innovation in banking among OCC staff. Examiners are being prepared to discuss innovative ideas in a constructive manner.

### RESOURCES

*A Guide to Community Banks,* OCC Office of Innovation, www.occ.gov/topics/responsible-innovation/occ-innovation-community-brochure.PDF.

*Supporting Responsible Innovation in the Federal Banking System: An OCC Perspective*, March 2016, www.occ.gov/publications/publications-by-type/other-publications-reports/pub-responsible-innovation-banking-system-occ-perspective.pdf.

## GENERAL SESSION 5: STRATEGIC PLANNING FOR SUCCESSION MANAGEMENT

### OVERVIEW

Minority depository institutions and CDFI banks, like many community banks, face challenges with regard to succession management and human capital development. The banks represented on this panel have used a variety of strategies to identify potential future leaders for their institutions and to enable these individuals to gain the experience they will need to carry out these roles. The panel discussed their challenges and successes in attracting, developing, and retaining the next generation of bank leaders and managers.

Panelists

- *Jeff Bowman, President and Chief Executive Officer, Bay Bank, Green Bay, WI*
- *Alden McDonald, President and Chief Executive Officer, Liberty Bank & Trust, New Orleans*
- *Preston Pinkett, Chairman and Chief Executive Officer, City National Bank, Newark, NJ*
- *Irwin Wong, Chief Operating Officer, Cathay Bank, Los Angeles*

*Moderator: Serena L. Owens, Acting National Director, Minority and Community Development Banking, Federal Deposit Insurance Corporation*

### GENERAL DISCUSSION

Succession planning and attracting top talent are opportunities for bankers who want to gain a competitive advantage and solidify the future of their banks. Serena Owens, the FDIC's acting national director for MDIs and CDFI banks, provided introductory remarks and opened the session by stating that regulators are hearing a lot about regulatory burden causing bank consolidations, but anecdotally, the regulators have learned that community banks are also merging because of difficulties in finding suitable candidates for key positions. Since most financial intuitions have an aging workforce, succession planning is becoming more crucial than ever.

The CEOs stressed that succession planning should align with the institution's long-term goals. Irwin Wong stated that up to

10 years ago, he hadn't planned at all because he thought people would come running because they would want to work for Cathay Bank. However, he noticed the aging of his board and key executives. He stated that the average age for his current board was 70 years and that his key managers were 66 years or older. He began to focus on succession management to protect the bank's legacy and identified critical positions in the bank such as chief executive officer, chief operating officer, chief financial officer, and senior credit officer, and then he defined the goal for the plan, which was to "find the proper individuals who could sustain the bank for another 50 years."

Alden McDonald shared that he began planning for succession management 12 to 15 years ago and has had to adjust his plan at least "three different times and three different ways." He stated that the real wake-up call was when they were wiped out by Hurricane Katrina and lost a lot of employees who relocated and never returned. Some of those employees were part of his original plan for succession management. He stated that future customers needed staff that could relate and communicate with them, and that bankers should always be looking for ways to incentivize, retain, and train all levels of talent. He also shared the need to keep up with how technology is changing the industry and to keep that in consideration when thinking about the succession management process.

Preston Pinkett stated that as a bank's size gets smaller, succession planning gets harder. He stated that his initial challenge with succession planning years ago was the fact that he inherited a challenging institution and attracting talent to the bank was equally challenging. Therefore, he had to address the issue by implementing a human capital management plan, which required him to evaluate his current workforce and hire strong replacements. He shared that although this took a while, he was eventually able to establish a backup for each critical position in the bank, and now they are working on enhancing career development for employees.

Jeff Bowman shared insights about unique aspects of being a Native American–owned bank. Bay Bank started succession planning by identifying weaknesses and prioritizing areas where employee development was needed most. He stated that they began to hire and develop employees for future growth, not solely to fill current needs. He gained his banking experience from working at a large institution with a defined management training program, but because of the size of his bank, they are unable to develop such a robust program. Therefore, they are more deliberate in identifying the right person for the position and giving him or her the support to be successful, whether through training programs, mentorships, or one-on-one coaching.

Other highlights shared were:

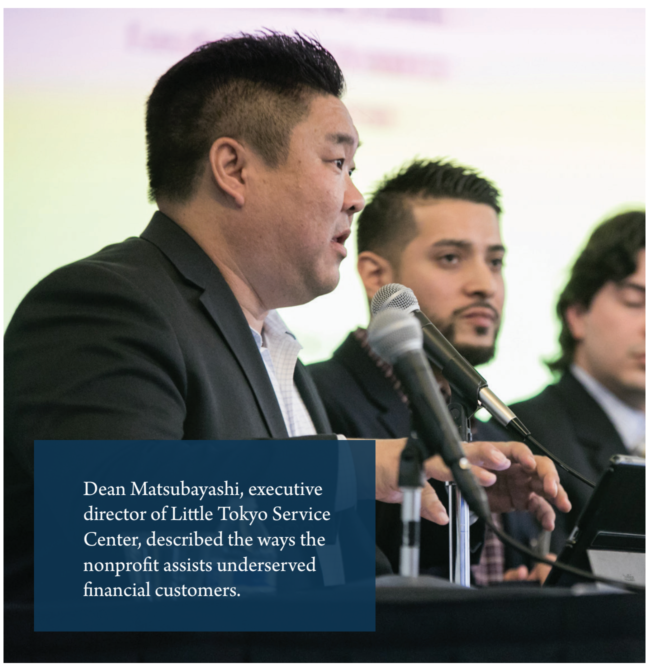
- No matter the size of the bank, having an effective plan will allow the bank to act efficiently when faced with the loss of a key team member and ensure smooth transitions.
- You know your organization best and need to think about what is right for your specific situation.
- Be prepared for short-term or unexpected employee openings by providing employees with the right education and cross-training so they are versatile, should these situations occur.
- Take time to understand the nuances of generations in the workplace. To attract and serve future customers, educate and take into consideration the needs of the different generations in your workforce.


Bank CEOs Irwin Wong (from left), Alden McDonald, Preston Pinkett, and Jeff Bowman shared insights about succession planning. The FDIC's Serena L. Owens (at lectern) moderated the session.

# COMMUNITY REINVESTMENT ACT STRATEGIES: REACHING UNDERSERVED POPULATIONS

## OVERVIEW

This session explored ways that minority depository institutions and CDFI banks can partner with nonprofits to reach individuals and businesses that have typically been difficult to serve. Representatives from three nonprofits discussed their work in helping the underserved access mainstream financial services, obtain affordable housing, preserve cultural institutions, and start and grow small businesses. The discussion focused on how mutually beneficial relationships can be structured with banks. While the three nonprofits are based in Los Angeles, one is part of an international organization, one is associated with a national network, and the other is a CDFI statewide lender. The types of partnerships discussed in the workshop can be formed with organizations serving communities across the nation.



Dean Matsubayashi, executive director of Little Tokyo Service Center, described the ways the nonprofit assists underserved financial customers.

Panelists

- *Jonathan Fein Proaño, Citizenship and Financial Capability Coordinator for International Rescue Committee*
- *Daniel Fernandez, Director for the Micro Lending Program at Opportunity Fund*
- *Dean Matsubayashi, Executive Director, Little Tokyo Service Center*

*Moderator: Beth Castro, Western District Community Affairs Officer, Office of the Comptroller of the Currency*

## GENERAL DISCUSSION

In 2016, 84.3 million immigrants and their children accounted for 27 percent of the U.S. population. This ethnically diverse group is larger than any of the minority classifications used by the U.S. Census. Immigrants are economically diverse, and some are struggling to find adequate affordable housing and services, jobs and self-employment, and access to the federal banking system. Underserved immigrants often have unique challenges, including language barriers, thin or no-file credit histories, and, in some cases, distrust of formal institutions.

Nonprofits can play a valuable role in assisting immigrants and building trust with public institutions. Many of these community organizations have developed the relationships and expertise needed to reach and serve underserved populations. Partnerships with nonprofits can help banks reach low- and moderate-income (LMI) immigrants and immigrant communities that they would not otherwise be able to serve. Not only may these partnerships lead to new business opportunities, but the activities may also be eligible for Community Reinvestment Act (CRA) consideration. This workshop, moderated by Beth Castro, OCC Western District community affairs officer, brought together three nonprofits serving the immigrant community in Los Angeles:

1. The International Rescue Committee (IRC), founded by Albert Einstein in 1933, serves immigrants, refugees, and asylees with a wide range of services, including adjustment of status (green card), reunification with family members, travel documents, naturalization, citizenship classes, and financial capability. IRC-LA's Citizenship and Financial Capability Program works with the 800,000 LMI lawful, permanent residents of Los Angeles to help them become naturalized citizens. The program empowers and educates naturalization applicants on how to take more ownership and control of their finances. IRC-LA partners with major financial institutions, CDFI banks, and community-based organizations to provide referrals and guidance on specific financial products.
2. Opportunity Fund, a nonprofit small business lender with offices in the Bay Area and Los Angeles, believes

Opportunity Fund's Daniel Fernandez (left) and Jonathan Fein Proaño (center), of the International Rescue Committee, were on the panel moderated by Beth Castro (right), of the Office of the Comptroller of the Currency.

that small amounts of money and financial advice can help people make permanent and lasting change in their own lives, driving economic mobility and building stronger communities. Opportunity Fund makes small business loans up to $250,000 for working capital, equipment, vehicles, and more. The responsibly priced and structured loans are designed to address the special needs of their clients. Opportunity Fund helps bank partners maintain small business banking relationships by providing bank customers requesting a small business loan with a second look — offering easy-to-get, fast, and affordable prime-rate term business loans to small business owners who do not qualify for bank loans.

3. Little Tokyo Service Center (LTSC) is a nonprofit community development corporation serving Asian and Pacific Islander residents throughout Los Angeles County who are in need, especially those facing language or cultural gaps, financial need, or physical disabilities. LTSC Community Development Corporation (CDC) sponsors over a dozen community and social service programs, individual and family mental health counseling, child abuse prevention, case management, support groups, senior services, childcare, preschool, after-school youth programs, and domestic violence programs. LTSC CDC collaborates with other nonprofit, community-based organizations to help them build multifamily affordable housing projects that serve their communities. LTSC initially partnered primarily with Asian and Pacific Islander organizations but has since expanded to black and Latino organizations in South Los Angeles and the San Fernando Valley. Banks have been critical partners in this work — no affordable housing would be built without the participation of the banking community. Bank support has been critical for the support of LTSC, for an acquisition and predevelopment fund, and for individual deal financing.

The discussion focused on the different types of relationships a bank may have with a nonprofit (e.g., referrals, volunteer activity, technical assistance, loan participations, direct loans, and grants) and how those partnerships are formed and maintained. While the institutions profiled operate in the Los Angeles area, other similar institutions (refugee and immigrant services, microenterprise lending, and community development corporations) operate in communities throughout the United States.

## RESOURCES

International Rescue Committee, Los Angeles, www.rescue.org/united-states/los-angeles-ca.
Little Tokyo Service Center, www.ltsc.org.
Opportunity Fund, www.opportunityfund.org.

*Community Development Loan Funds: Partnership Opportunities for Banks*, October 2014, www.occ.gov/topics/community-affairs/publications/insights/insights-community-development-loan-funds.pdf.

# ENHANCING CAPACITY THROUGH COLLABORATION

## OVERVIEW

MDIs and CDFI banks play an important role across the country supporting the financial needs of businesses, communities, and families. They face challenges in providing the competitive products and services their customers expect, and they compete with other traditional and nontraditional financial service providers that are expanding their activities.

Collaboration can help unlock opportunities for community banks to manage expenses and meet regulatory requirements that may require specialized expertise. This session explored the benefits of collaboration, described how minority and CDFI banks can structure collaborative arrangements, and provided examples of how institutions can work together to support minority consumers.

Panelists

- *Natalie Abatemarco, Managing Director, Citi*
- *Guillermo Diaz-Rousselot, President and CEO, Continental National Bank*
- *Jesse Jackson, Senior Vice President, Texas Capital Bank*
- *Doyle Mitchell, President and CEO, Industrial Bank*
- *Joe Quiroga, President, Texas National Bank*

*Moderator: Andrew Moss, Manager, External Relations and Minority Affairs, Office of the Comptroller of the Currency*

## GENERAL DISCUSSION

MDIs and CDFI banks are typically small community banks that serve market niches or populations that are often underserved by larger institutions. Because of their size, MDIs and CDFI banks often lack sufficient scale and expertise to develop the products, customer interfaces, delivery systems, and internal processes that larger institutions offer in mainstream markets. Collaborations among MDIs and between MDIs and larger banks have been explored as a way to overcome these impediments while retaining the distinctive nature of the smaller institutions.

In 2016, the OCC brought together a select group of MDIs, CDFI banks, and large and midsize banks to explore ways the banks could work together for mutual benefit. In 2017, the OCC convened a series of five Regional Roundtables across the U.S. to engage more banks and to deepen the discussions that were started in that initial meeting.

Two collaborations that came out of those roundtables were profiled in the workshop. Citi and Continental National Bank discussed the Citi ATM Community Network, which provides surcharge-free ATM access to customers of partnering MDIs, CDFI banks, and credit unions in Chicago, Los Angeles, Miami, New York, San Francisco, and Washington, D.C. The participating financial institution customers have free access to roughly 2,400 branch Citi ATMs in the U.S. Twenty-six financial institutions were participating in the program at the time of the conference.

After the initial convening in Washington, Texas Capital Bank hosted a CEO roundtable of selected MDIs and CDFI banks at its headquarters in Texas. At the meeting, the bankers explored loan participations, reciprocal deposit relationships, and intellectual capital sharing and specialized expertise in areas such as talent management/recruiting, compliance risk, marketing, and cybersecurity. Two Texas Capital Bank partnerships with MDIs — a $2 million loan participation with Industrial Bank and a $5 million deposit in Texas National Bank — were profiled at the workshop.

A few themes emerged from the discussions. First, MDIs and CDFI banks can play a critical role in expanding access to safe and affordable financial products. Second, it is important to understand and manage the competitive issues that may be inherent in collaborative relationships. Third, collaborative relationships can be mutually profitable as well as socially impactful, making them more sustainable and lasting.

## RESOURCES

*An Opportunity for Community Banks: Working Together Collaboratively*, OCC, January 2015, www.occ.gov/publications/publications-by-type/other-publications-reports/pub-other-community-banks-working-collaborately.PDF.

*Collaborative Relationships with Minority Depository Institutions*, FDIC, December 2017, www.fdic.gov/news/news/financial/2017/fil17064.html.

## PROPOSED CHANGES IN SMALL BUSINESS LENDING REPORTING

### OVERVIEW

Section 1071 of the Dodd–Frank Act gave the Consumer Financial Protection Bureau (CFPB) the responsibility to expand small business lending data collection requirements. Financial institutions will be required to collect and maintain certain data in connection with credit applications made by women- or minority-owned businesses and small businesses. Grady Hedgespeth, assistant director for the CFPB's new Office of Small Business Lending Markets, formerly of the Small Business Administration's Office of Economic Opportunity, discussed the CFPB's efforts to make the small business lending market fairer and more transparent.

*Moderator: Grady Hedgespeth, Assistant Director of the Office of Small Business Lending Markets, CFPB*

### GENERAL DISCUSSION

This session was planned so the CFPB could learn more about the business lending data that are used and may be maintained by financial institutions in connection with credit applications made by small businesses, including women- and minority-owned small businesses, and the potential complexity and cost of small business data collection and reporting.

Grady Hedgespeth, assistant director of the Office of Small Business Lending Markets for the CFPB, shared that the exploration of key issues was underway and that the first step was to get feedback from small businesses and lending institutions. He shared that the rulemaking process will include a formal engagement of key stakeholders from federal and state agencies, community advocacy groups, and the industry to gain a better understanding of the business financing marketplace, including:

- products offered to women-owned, minority-owned, and small businesses;
- financial institutions that offer such credit;
- data elements; and
- privacy concerns.

Since many MDIs are smaller community banks, they expressed concern about how the reporting requirement would affect them and their customers. MDI bankers shared that at times they start with smaller dollar loans with their customers and grow them over time, and initial costs of implementation may exceed the benefits once the final implementation of Section 1071 is complete. There were also questions about streamlining the systems between the Small Business Administration and CFPB to help with efficiency of data collection.


Grady Hedgespeth, assistant director of the Office of Small Business Lending Markets at the Consumer Financial Protection Bureau, led a discussion about small business lending reporting.

## EXPANDING IMPACT, MEASURING IMPACT

Depository institutions face a unique set of challenges when it comes to collecting data to tell their impact story. This workshop discussed which data can and cannot be collected by banks and provided examples of MDIs and CDFI banks that are successfully prioritizing impact measurement and data collection.

Brian Argrett, president and CEO of City First Bank in Washington, D.C., and Naomi Cytron of the Federal Reserve Bank of San Francisco recommended systematic and strategic data collection.

Panelists

- *Brian Argrett, President and CEO, City First Bank, Washington, D.C.*
- *Jeannine Jacokes, Chief Executive and Senior Policy Advisor, Community Development Bankers Association, Washington, D.C.*
- *Dominik Mjartan, CEO, Southern Bancorp, Arkadelphia, AR*

*Moderator: Naomi Cytron, Senior Research Associate, Federal Reserve Bank of San Francisco*

### GENERAL DISCUSSION

Data can be powerful in helping MDIs and CDFI banks tell the story of the impact their work has in the communities they serve. In this session, moderated by Naomi Cytron of the Federal Reserve Bank of San Francisco, the panelists discussed how a thoughtful and strategic approach to data collection can help ensure that resources are meeting the intended outcomes.

A strategic approach to collecting and using data can offer MDIs and CDFI banks an opportunity to differentiate themselves from their competition. Most banks are already collecting large amounts of data, and by using those data more efficiently, bankers are able to deliver more cost-effective and meaningful campaigns that specifically target community needs.

A main theme emphasized by the three panelists was that you have to systematically think about what you are trying to accomplish, gain feedback, and ensure that your process meets the goal.

Below are key takeaways that were shared by the panelists:

- Plan; consider your mission and what you want to accomplish. Look at your products and services and analyze how they align with your goals and mission.
- Look at the data your bank collects naturally. Decide what you can repurpose and set goals around what changes you are trying to achieve.
- Start with identifying what problem you are trying to solve. Be systematic about what you're trying to accomplish and have a compelling approach to solving those problems.
- Use multiple outlets to tell the story. Get others involved, use social media, and use impact reports.
- Make the most of the data you have; get started and integrate them into your systems and culture. Combine your internal data with external information to create a bigger picture of what you're trying to accomplish.

The CEOs were consistent in the message that data have to be integrated into the systems and used to tell the story of the institution. Also, clearly defining goals and milestones will ensure that the organization is aligned to a common purpose.

# INTERNATIONAL TRADE FINANCE

### OVERVIEW

International trade is a substantial component of the U.S. economy. Exports accounted for 27 percent of overall economic growth between 2008 and 2014, and in 2014, exports officially passed the $2 trillion mark for the first time.

In this roundtable session, participants discussed international trade finance with their peers. Representatives of the Small Business Administration (SBA), the Export-Import Bank, and the regulatory agencies were also present to support the discussion. This interactive session explored how banks are involved in international trade finance, the capacities they need to carry out the work, the critical issues they face, the partnerships and support that aid their efforts, and their expectations for the future.

*Moderators*

- *Jeff Deiss, International Trade Finance Manager, Western U.S., Small Business Administration*
- *Pellson Lau, Regional Manager, Export Solutions Group, Southern California and Arizona, Small Business Administration*

### GENERAL DISCUSSION

Many MDIs serve immigrants and are located in markets with significant international commercial activity. While international trade finance is not currently a major activity of most MDIs, many have undertaken or are considering these types of transactions, often in support of existing customers. Workshop participants perceived a cautious expansion into financing international trade as part of their strategies to better serve their customers and communities while also establishing new business opportunities.

Jeff Deiss and Pellson Lau, trade finance experts from the SBA, led a discussion with the MDIs. They began by noting the importance of exports to small businesses and local communities. Ninety-six percent of the world's consumers live outside the United States, and they represent two-thirds of the world's purchasing power. U.S. companies export to reach these markets, increasing sales and profits. By competing in foreign markets, businesses are better able to weather downturns in the domestic economy. In addition, advancements in e-commerce and logistics have lowered the costs of doing business overseas, putting international trade in the reach of even very small businesses.

Conducting business with a trading partner that is far away or in a country where contracts are hard to enforce can produce increased risks. The SBA and the Export-Import Bank offer products that can help reduce the credit risk in these transactions. Products frequently used by small businesses include:

- loan guarantees, up to 90 percent, on credit products used for export development and working capital finance. SBA Export Express offers guarantees on loans used for


Jeff Deiss, an international trade finance manager at the SBA (standing), directed the session about international trade finance, along with Pellson Lau (second from left), a regional manager with the SBA.

business purposes that will enhance a company's export development. For example, a business can use funds to participate in a foreign trade show, support standby letters of credit, and translate product literature for use in foreign markets. The business may also use funds to finance specific export orders, expand production facilities, and purchase equipment inventory or real estate. Both the SBA and the Export-Import Bank offer guarantees on working capital loans used for financing for suppliers, inventory, work-in-progress, or production of export goods or services; working capital to support foreign accounts receivable during long payment cycles; and financing for standby letters of credit used as bid or performance bonds or as down payment guarantees.

- loan guarantees, such as the SBA International Trade Loan Program, on credit products used to acquire, construct, renovate, modernize, improve, or expand facilities and equipment of U.S. businesses to produce goods or services involved in international trade.

While credit risk can be managed, compliance risk is a significant concern for international trade finance and may present a significant barrier for entry into this market. The banks discussed gradually stepping into international trade finance in order to fully understand the business and manage the credit risk. However, compliance with the Bank Secrecy Act, anti-money laundering (AML), and Office of Foreign Assets Control regulations represented significant hurdles to international trade finance, even at a relatively modest scale.

### RESOURCES

*Trade Finance and Services*, Comptrollers Handbook, April 2015, www.occ.treas.gov/publications/publications-by-type/comptrollers-handbook/trade-finance-services/pub-ch-trade-finance.pdf.

*Joint Fact Sheet on Foreign Correspondent Banking: Approach to BSA/AML and OFAC Sanctions Supervision and Enforcement*, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, U.S. Department of the Treasury, August 30, 2016, www.occ.gov/topics/compliance-bsa/foreign-correspondent-banking-fact-sheet.pdf.

## EXPANDING MINORITY COMMUNITY DEVELOPMENT PARTICIPATION IN NEW MARKETS TAX CREDITS

### OVERVIEW

The New Markets Tax Credit program reinvigorates economically distressed communities by attracting private investment capital, generating $8 of private investment for every $1 of federal funding. Individual and corporate investors receive a tax credit against their federal income tax in exchange for making equity investments in community development entities to finance businesses in underserved low-income communities. The credit totals 39 percent of the original investment amount and is claimed over a period of seven years. This workshop explored how minority depository and community development financial institutions can participate in the program as a community development entity or a leveraged lender. It featured an MDI and a CDFI bank that have successfully participated in the program.

Panelists

- *Lori Elam, Executive Vice President and CFO, Metro Bank, Louisville, KY*
- *Joseph Haskins Jr., Chairman, President, and CEO, The Harbor Bank of Maryland, Baltimore*
- *Saurabh Narain, President, Chief Executive and Director, National Community Investment Fund, Chicago*

*Moderator: Annie Donovan, Director, Community Development Financial Institutions Fund*

### GENERAL DISCUSSION

The New Markets Tax Credit Program is administered by the Community Development Financial Institutions Fund and uses tax credits to attract private investments into distressed communities with the intent of creating jobs and leading to economic growth in these communities.

MDIs that have been awarded new market tax credits (NMTCs) shared what they learned and how their communities benefited from these awards. In this session, Saurabh Narain of the National Community Investment Fund discussed how minority institutions could learn more through the Minority Community Development Entities New Market Tax Credit Training. The goal of this initiative is to increase participation of minority community development entities (CDEs) in the NMTC Program. Training does not guarantee that a minority CDE that applies will receive an allocation; only about 50 percent of applicants get awards.

An entity can participate in one of five roles:

- potential recipient
- secondary community development entity
- leveraged lender or direct lender to the project
- tax credit investor
- sponsor/qualified active low-income community business


Joseph Haskins Jr., chairman, president, and CEO of The Harbor Bank of Maryland, enumerated how new markets tax credits have facilitated the bank's work and benefited the community it serves.

Joseph Haskins Jr. of The Harbor Bank of Maryland and Lori Elam of Metro Bank shared that the tax credits their banks have received have allowed them to fund larger projects and participate jointly with other banks and have helped attract other companies into their communities.

Additional ways that NMTCs have benefited their communities:

**Harbor Bank**

- *Credits attracted private investment dollars to low-income communities (LIC).*
- *Goals and strategies are consistent with economic development initiatives of the local government and other LIC advocates.*
- *NMTCs brought about:*
    - *renovation of underutilized and vacant buildings;*
    - *improved health and wellness;*
    - *increased access to healthy foods;*
    - *provision of social services; and*
    - *support of charter school development in low-income communities.*

**Metro Bank**

- *Participation in the program generated over $5.5 million in noninterest income for the bank.*
- *Credits enabled the bank to fund large-dollar projects over the legal lending limit.*
- *Bank's involvement as a leveraged lender yielded interest income.*
- *The bank funded or participated in the refinancing of leveraged debt.*

This has brought positive attention to the banks' organizations and mission, and ultimately awards have positively impacted the communities these banks serve.

Learn more about the New Markets Tax Credit Program at www.cdfifund.gov/nmtc.

The invitation-only 2019 Interagency Minority Depository Institution and CDFI Bank National Conference will be held June 25–26, 2019, in Arlington, VA. More information is available at www.fdic.gov/regulations/resources/minority/events/interagency2019/.

INTERAGENCY MINORITY DEPOSITORY INSTITUTIONS NATIONAL CONFERENCE

MDI

MINORITY
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