



Preservation and Promotion of Minority Depository Institutions

Report to Congress for 2013



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The Federal Deposit Insurance Corporation Report to Congress for 2013

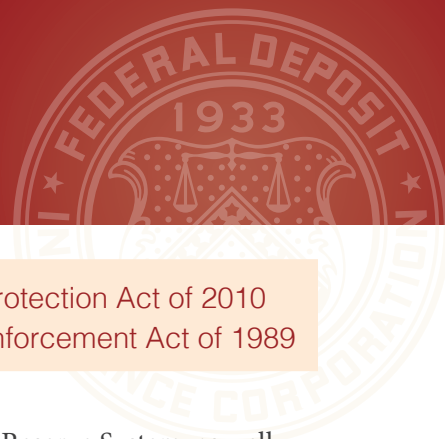


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Pursuant to Section 367 of the Wall Street Reform and Consumer Protection Act of 2010 and Section 308 of the Financial Institutions Reform, Recovery and Enforcement Act of 1989

Section 308 of the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) established the following goals: to preserve the number of minority depository institutions; to preserve the minority character in cases involving merger or acquisition of a minority depository institution; to provide technical assistance to help prevent insolvency of minority depository institutions; to promote and encourage creation of new minority depository institutions; and to provide for training, technical assistance and educational programs for minority depository institutions.

This report provides a summary profile of minority depository institutions (MDIs) as of the end of 2013; a description of the FDIC's minority depository institution program; and detailed information on our 2013 initiatives supporting minority depository institutions. The FDIC defines an MDI as (1) any Federally insured depository institution where 51 percent or more of the voting stock is owned by minority individuals; or (2) where a majority of the Board of Directors is minority and the community that the institution serves is predominantly minority. Ownership must be by U.S. citizens or permanent legal U.S. residents to be counted in determining minority ownership. The FDIC's Policy Statement Regarding Minority Depository Institutions (see Attachment 1) provides additional information.

Summary Profile of Minority Depository Institutions

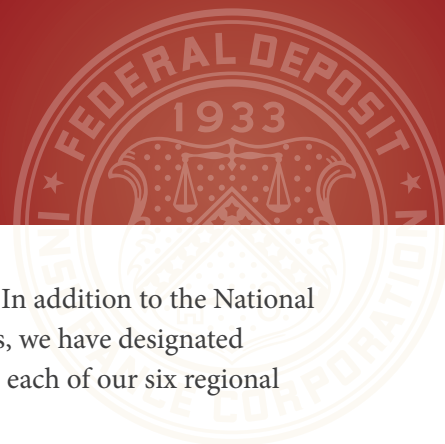
The FDIC tracks those insured MDIs it supervises, i.e. State chartered institutions which are not

members of the Federal Reserve System, as well as MDIs which are supervised by the Office of the Comptroller of the Currency (OCC) and the Federal Reserve System. The FDIC takes this broad approach given our role in considering applications for deposit insurance and our role in resolution and receivership in the event an MDI were to fail. As of December 31, 2013, FDIC-insured MDIs totaled 174 institutions with over \$181 billion in total assets. (See Attachment 2, List of Minority Depository Institutions as of December 31, 2013.) At the beginning of 2013, there were 181 FDIC-insured MDIs. During the year, we added six institutions to the list upon their request and validation that they met the MDI program criteria of the FDIC, OCC or Federal Reserve. Thirteen MDIs came off the list: six MDIs merged into or were acquired by other MDIs; two merged into or were acquired by non-MDIs; two MDIs failed; one MDI self-liquidated; one MDI voluntarily terminated its insurance to merge with a credit union; and one MDI no longer met the definition. With respect to the two MDIs that failed, in one case, an African American MDI with \$58 million in assets was acquired by another African-American MDI through a purchase and assumption transaction arranged by the FDIC at failure so that the banking relationship remained in the community. In the second case, the FDIC approved the payout of the insured deposits of a \$26 million multiracial MDI because the FDIC was not able to find another financial institution to take over the banking operations when the state regulator closed the bank.

As of December 31, 2013, the overall performance

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of all 174 FDIC-insured MDIs continues to improve relative to the crisis years. Most MDIs report earnings comparable to institutions of similar size. For example, excluding the five large Puerto Rico institutions (which skew the results due to their size and the recent economic challenges in Puerto Rico), the return on assets for all MDIs is 1.07%, the same ROA for all FDIC-insured institutions at the end of the year. However, the percentage of unprofitable MDIs was nearly 29% at the end of 2011, and has declined below 19% as of the end of 2013. While this is an improvement, it is still well more than double the 7.84% rate of all FDIC-insured unprofitable institutions, in part reflecting the continuing economic challenges faced by many of the communities MDIs serve. Generally, smaller MDIs and those serving low- and moderate-income communities face the greatest challenges.

FDIC National Minority Depository Institutions Program

The FDIC's Minority Depository Institution Program ("MDI Program") is outlined in the FDIC's Policy Statement Regarding Minority Depository Institutions (see Attachment 1). The FDIC's MDI Program is fully integrated into our supervision, consumer protection and receivership business lines. The FDIC retains a dedicated permanent executive as National Director of Minority and Community



Robert W. Mooney, FDIC's National Director of Minority and Community Development Banking, kicks off the 2013 Interagency MDI and CDFI Bank Conference

Development Banking. In addition to the National Director at headquarters, we have designated regional coordinators in each of our six regional offices.

The National Director provides overall direction and guidance, and ensures that appropriate resources are involved in program initiatives. The National Director works closely with MDIs and their trade associations to seek feedback on the FDIC's efforts under this program, discuss possible training initiatives, and explore options for preserving and promoting minority ownership of depository institutions. In carrying out this work, the FDIC meets regularly with our Federal banking agency colleagues to discuss our outreach efforts, to share ideas, and to identify opportunities where the agencies can work together to assist MDIs. In addition, we coordinate with other Federal agencies that provide programs that can assist MDIs.

Executives and staff in our six regional offices communicate with each MDI regularly to outline the FDIC's efforts to promote and preserve minority ownership of financial institutions; offer to have a member of regional management meet with the institution's board of directors to discuss issues of interest, including through roundtable discussions and training sessions; and to seek input regarding any training or other technical assistance the institution may desire.

2013 Initiatives Supporting Minority Depository Institutions

The FDIC, along with our colleagues at the OCC and Federal Reserve, sponsored our biannual interagency conference to preserve and promote MDIs in June 2013 at the FDIC's conference facility in Arlington, VA. This year the conference focused

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especially on MDIs lending in low- and moderate-income neighborhoods and included Community Development Financial Institutions (CDFI banks) who also provide financial services to underserved neighborhoods. FDIC Chairman Martin J. Gruenberg, Comptroller of the Currency Thomas J.



FDIC's Chairman Martin J. Gruenberg welcomes Minority and Community Development Bankers to the 2013 Interagency Conference.

Curry, and Federal Reserve Governor Sarah Bloom Raskin, welcomed other senior Federal Officials and Minority and CDFI bank executives from around the country to explore Strategies

for Success through Collaboration. About 120 MDI and CDFI bankers, representing 77 banks, participated. The conference encouraged interactive discussion among those who believe MDIs and CDFI banks are uniquely positioned to create positive change in their communities. The conference also encouraged a diverse array of participants to express their views.

During plenary sessions on the first morning, the conference heard from Washington. Senior officials from Federal agencies provided updates on programs and policies that can help MDI and CDFI banks achieve their goals. During the afternoon, it heard from the industry. Bank CEOs and investors “told their story,” communicated their strategies



The “Partnering with Washington” panel included left to right, Don Graves, Carol Galante, Donna Gambrell, Jeanne Hulit, Mark Brodziski, Charles Tansey

and successes, and made recommendations to the industry, Federal policy makers and others. On the second morning of the conference, interactive roundtable sessions invited bankers, government officials, and all participants, to explore forming partnerships and networks to help MDI and CDFI banks achieve economies of scale and improve overall performance. In the afternoon, bank directors, managers and staff also had the opportunity to attend brown bag lunch regulator briefings and technical assistance training sessions, to learn how to improve overall regulatory performance.

(See Attachment 3 which is a detailed summary of the conference including many technical assistance resources that MDI and CDFI banks can use).



President and CEO Preston D. Pinkett III leads a roundtable discussion on how MDIs and CDFIs can collaborate with other financial institutions.

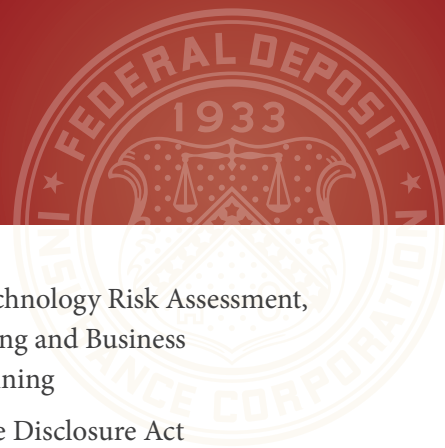
At the conference, the FDIC reported preliminary results of a research-based study of MDIs that we conducted to better understand the role they play in the financial system and the post-crisis challenges they face. The study follows a methodology similar to the methodology we used in the FDIC’s 2012 Community Banking Study. We are currently updating the data in the study and will release it for publication in July 2014. The study focuses on structural changes in MDIs; their geography; the financial performance of MDIs over time; capital formation; and the broader community impact of these institutions.

Technical Assistance

The FDIC routinely contacts MDIs to offer technical assistance. Following the conclusion of

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each risk management, compliance, Community Reinvestment Act, and specialty examination, FDIC staff offer return visits to assist management in understanding and implementing examination recommendations. MDIs also may initiate contact with the FDIC to request technical assistance at any time. The FDIC assists in reviewing and offering feedback and recommendations on a variety of matters, including:

- » Proposed written policies for major operational areas, such as lending, investment, funds management, and compliance;
- » Proposed strategic plans and budgets;
- » Proposed applications or notices for new branches and/or new activities; and
- » Any other matters where MDI bank management would like FDIC input.

During 2013, the FDIC provided 109 instances of technical assistance, up from 106 during 2012. MDIs requested technical assistance on a number of bank supervision issues, including but not limited, to the following:

- » Corporate Governance
- » New Capital Rules
- » Capital Stress Testing
- » New Mortgage Rules
- » Loan Underwriting and Administration
- » Troubled Debt Restructuring
- » Investment Policy and Investment Securities Monitoring
- » Funds Management
- » Interest Rate Risk Modeling/Stress Testing
- » Third Party Risk
- » Internal Audit programs

- » Information Technology Risk Assessment, Strategic Planning and Business Continuity Planning
- » Home Mortgage Disclosure Act
- » Community Reinvestment Act
- » Bank Secrecy Act and Anti-Money Laundering
- » Branch Opening and Closing Requirements
- » Mergers/Acquisition
- » Prompt Corrective Action
- » FDIC Loss Share Agreements



Jill Sung, Abacus Bank, New York, NY poses a question for the regulators.

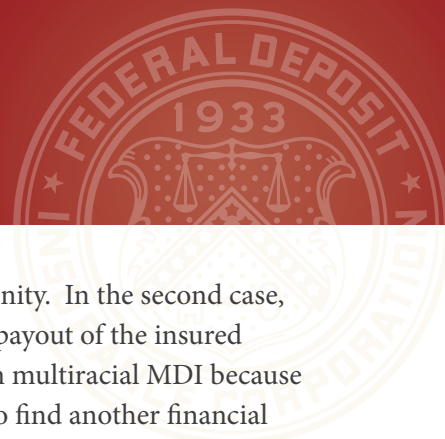
Outreach, Training and Educational Programs

In 2013, the FDIC continued to offer the benefit of having an examiner or a member of regional office management return to FDIC-supervised MDIs from 90 to 120 days after an examination to help management understand and implement examination recommendations or to discuss other issues of interest. Several MDIs took advantage of this initiative in 2013.

The FDIC regional offices conducted outreach and held educational programs for MDIs, including regional roundtables and regional and nationwide telephone conferences. In 2013, the regional offices and headquarters provided over 50 outreach sessions across the nation for MDIs. The National

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Director participated in ten outreach sessions with MDI organizations representing national MDI and community development interests. The roundtables and calls reached hundreds of bankers. Outreach topics of discussion included: the new capital rules; managing interest rate risk; fraud; Bank Secrecy Act; information technology risks and cyber security; third party risk; Dodd-Frank Act; corporate governance; capital markets; the new mortgage rules; mergers, acquisitions and branch applications; fair lending; Community Reinvestment Act; stress testing; loss share agreements; and many other topics. In addition, we invited MDIs to participate in several free telephone seminars on deposit insurance coverage for bank representatives.

Failing Institutions

The FDIC attempts to preserve the minority character of failing institutions during the resolution process. In the event of a potential failure of an MDI, the FDIC contacts all MDIs nationwide that qualify to bid on failing institutions. We solicit qualified MDIs' interest in the failing institution, discuss the bidding process, and upon request, offer to provide technical assistance regarding completion of the bid forms. During the resolution process, institutions on the final bidders list must be cleared by the appropriate Federal and State regulators.

The FDIC has been, and continues to be, committed to preserving the minority character in cases of merger or acquisition. Two FDIC-insured minority depository institutions failed in 2013. As noted earlier, an African American MDI with \$58 million in assets was acquired by another African-American MDI through a purchase and assumption transaction arranged by the FDIC at failure so that the minority banking relationship

remained in the community. In the second case, the FDIC approved the payout of the insured deposits of a \$26 million multiracial MDI because the FDIC was not able to find another financial institution to take over the banking operations when the state regulator closed the bank. The FDIC has a strong record in preserving the minority character in mergers, acquisitions and failures. Since 2002, almost two-thirds of the assets of the merged institutions and about 87 percent of the assets of failed institutions remained with MDI acquirers.

The FDIC also works to encourage participation of small, minority and women-owned investors in FDIC failed bank asset sales programs. In 2013, at the interagency MDI and CDFI bank conference, the FDIC's Division of Resolutions and Receiverships (DRR) and Office of Minority and Women Inclusion (OMWI) presented a roundtable covering the types of assets the FDIC has for sale, the various methods used to sell assets, how to become pre-qualified as a potential asset purchaser/investor, and the types of sales opportunities and programs available.

OMWI and DRR also conducted a series of outreach events to raise awareness, and provide information, on how to purchase owned real estate through DRR's Owned Assets Marketplace and Auctions Program. The events also facilitated interaction between smaller investors and asset managers, which includes minority- and women-owned (MWO) firms. These included three informational sessions and several workshops/webinars targeting small and MWO investors in the southeast in connection with auctions occurring there during October and November. Information on these topics is presented on the FDIC's website at www.fdic.gov/mwop.

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CEOs Alden McDonald, Kim Saunders and Darrin Williams discuss industry-led solutions.

Conclusion

Minority depository institutions often promote the economic viability of minority and under-served communities, providing access to capital in their communities. The FDIC has long recognized the importance of minority depository institutions in our financial system and has historically taken steps to preserve and encourage minority ownership of insured financial institutions. Over many years, MDI bankers have provided valuable input and leadership, as active members of two FDIC Advisory Committees that shape FDIC priorities and policy: the Advisory Committee on Economic Inclusion and the Advisory Committee on Community Banking.

The FDIC continually seeks to identify initiatives that will enable us to carry out our commitment to preserve existing minority depository institutions; to preserve the minority character of an institution in cases of merger or acquisition; to provide technical assistance to help prevent insolvency of institutions; to promote and encourage the creation of new minority depository institutions; and to provide for training, technical assistance, and education programs.

Attachments

Attachment 1: FDIC Policy Statement Regarding Minority Depository Institutions

Attachment 2: List of Minority Depository Institutions as of December 31, 2013

Attachment 3: The 2013 Interagency Minority Depository Institution and CDFI Bank

Conference: Strategies for Success through Collaboration

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FEDERAL DEPOSIT INSURANCE CORPORATION, Washington, DC 20429

MARTIN J. GRUENBERG
CHAIRMAN

July 16, 2014

Honorable Harry Reid
Majority Leader
United States Senate
Washington, D.C. 20510

Dear Senator Reid:

In accordance with Section 367 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, Public Law 111-203, the Federal Deposit Insurance Corporation submits its Fiscal Year 2013 report on activities to preserve and promote minority ownership of minority depository financial institutions.

This report provides summary profile information about minority depository institutions, a summary of the FDIC's minority depository institution program, and an overview of the actions we took in 2013 to preserve and promote minority depository institutions.

If you have further questions or comments, please do not hesitate to contact me at (202) 898-3888 or Eric J. Spitler, Director, Office of Legislative Affairs, at (202) 898-7140.

Sincerely,

Martin J. Gruenberg

Enclosure

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FEDERAL DEPOSIT INSURANCE CORPORATION, Washington, DC 20429

MARTIN J. GRUENBERG
CHAIRMAN

July 16, 2014

Honorable Mitch McConnell
Minority Leader
United States Senate
Washington, D.C. 20510

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FEDERAL DEPOSIT INSURANCE CORPORATION, Washington, DC 20429

MARTIN J. GRUENBERG
CHAIRMAN

July 16, 2014

Honorable John Boehner
Speaker
House of Representatives
Washington, D.C. 20515

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FEDERAL DEPOSIT INSURANCE CORPORATION, Washington, DC 20429

MARTIN J. GRUENBERG
CHAIRMAN

July 16, 2014

Honorable Nancy Pelosi
Minority Leader
House of Representatives
Washington, D.C. 20515

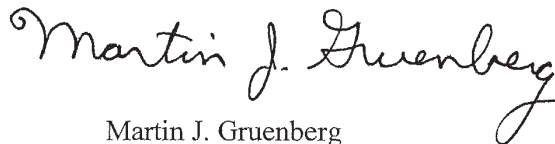
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