# Preservation and Promotion of Minority Depository Institutions

Report to Congress for 2014

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The Federal Deposit Insurance Corporation Report to Congress for 2014

## Contents

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Pursuant to Section 367 of the Dodd-Frank 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 of 1989 (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.

Pursuant to Section 367 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, this report provides a summary profile of minority depository institutions (MDIs) as of the end of 2014; a description of the FDIC's minority depository institution program; and detailed information on our 2014 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 insured MDIs it supervises, i.e. State chartered institutions which are not members of the Federal Reserve System, as well as MDIs that are supervised by the Office of the Comptroller of the Currency (OCC) and the Federal Reserve System.[1] 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, 2014, FDIC-insured MDIs totaled 175 institutions with nearly $186 billion in total assets. (See Attachment 2, List of Minority Depository Institutions as of December 31, 2014.)

At the beginning of 2014, there were 174 FDIC-insured MDIs with approximately $181 billion in assets. During the year, a total of six MDIs were added to the list. The FDIC designated four institutions (three Hispanic American and one Asian American) as MDIs; the OCC designated one institution as an Asian American MDI; and the Federal Reserve designated one institution as a Native American MDI. Also during the year, five MDIs (four Asian American and one Hispanic American) came off the list: three MDIs merged into or were acquired by other MDIs; and two MDIs failed and were closed by their chartering authorities and entered into FDIC receivership. With respect to the two MDIs that failed, in one case, an Asian American MDI with approximately $954 million in total assets was acquired by another Asian American MDI through a purchase and assumption transaction arranged by the FDIC

[1]The FDIC's published list of FDIC-insured minority depository institutions does not include women-owned or women-managed institutions because they are not included in the statutory definition.

at failure so that the banking relationship remained in the community. In the second case, a Hispanic American MDI with approximately $66 million in total assets was acquired by a non-MDI.

As of December 31, 2014, the overall performance of all 175 FDIC-insured MDIs has improved relative to performance during the financial crisis years. Nearly 80 percent of MDIs were profitable in 2014, although the return on assets (ROA) of 0.85 percent was below community banks overall at 0.93 percent and all banks with ROA at 1.01 percent. Generally, smaller MDIs and those serving low- and moderate-income communities face the greatest challenges, in part reflecting the continuing economic challenges faced by many of the communities MDIs serve. The proportion of non-current assets at MDIs continues to decline, but still remains more than double the rate of community banks and all banks. MDIs have higher net interest margins overall than community banks and all banks, but their net charge-off rates are significantly higher as well.

## FDIC National Minority Depository Institutions Program

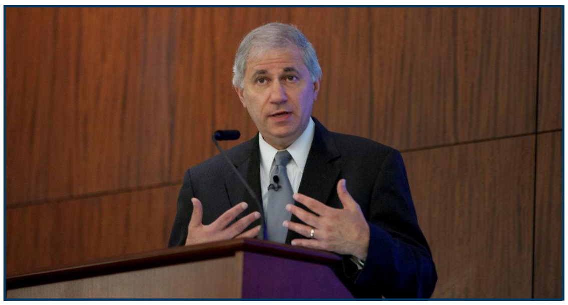
The FDIC's Minority Depository Institution Program ("MDI Program") is outlined in the FDIC's Policy Statement Regarding Minority Depository Institutions (see Attachment 1). The FDIC's MDI Program is fully integrated into our supervision, consumer protection and receivership business lines. The FDIC retains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

## 2014 Initiatives Supporting Minority Depository Institutions

In July 2014, the FDIC released a study, *Minority Depository Institutions: Structure, Performance, and Social Impact* (See Attachment 3). The study builds on analytical work discussed at the June 2013 Interagency Minority Depository Institution and CDFI Bank Conference. At the July 23, 2014 meeting of the FDIC's Advisory Committee on Community Banking, FDIC staff presented the results of the study and discussed the FDIC's MDI program. FDIC staff suggested that community banks are well positioned to help MDIs because even those in close proximity often do not compete against one another. FDIC staff pointed out opportunities for community banks to work with MDIs and also earn valuable incentives



Chairman Martin J. Gruenberg discusses the FDIC's study, Minority Depository Institutions: Structure, Performance, and Social Impact.

under the Community Reinvestment Act. The conversation was then opened for input from the Advisory Committee. The Committee, comprised of a diverse group of community bankers from around the country, including two MDI bankers, engaged in a lengthy discussion. Committee members expressed their appreciation for this "essential" work and for the time and resources the FDIC had dedicated to produce the study. One member indicated she would use the results to talk to potential investors, and raise the general understanding of the important economic role that MDIs play. The Committee also discussed the technical assistance that the FDIC provides to MDIs.

The FDIC additionally presented the results of the MDI study to the National Bankers Association, a trade group primarily representing minority financial institutions, and to the Minority Bank Council of the Independent Community Bankers of America. The FDIC received overwhelmingly positive feedback from these bankers, who expressed their appreciation for this "first of its kind" study focused on MDIs. Several MDI CEOs indicated they thought that the study would help interest potential investors, attract Board Members, attract qualified management, and better inform future legislative and regulatory initiatives. They also expressed interest in having the FDIC conduct follow-on research on MDIs.

## Findings of the FDIC's 2014 MDI Research Study

The study starts with a description of MDIs and where they are located. MDIs tend to be located in communities with a higher share of minority residents and low to moderate income areas that might be underserved absent an MDI. The MDI population makes up 2.6 percent of insured institution charters, and has about 1.2 percent of total industry assets in the aggregate. Most are relatively small in size, with a median asset size of just under $200 million.

Like other types of banks, the MDI banking segment has experienced significant structural change over time. The number of MDI charters has fluctuated, due to a number of factors, including institutions being newly designated as MDIs, existing MDIs merging or being acquired by other institutions, failure, and the chartering of new MDIs.

Compared with the industry overall, and especially community banks, MDIs have experienced a greater degree of structural volatility, with relatively few MDIs operating continuously through the 2001-2013 study period. The composition of the MDI segment has also changed over time, with the share of Asian American MDIs increasing, and the share of African American MDIs declining. During the crisis, 32 MDIs failed, for a failure rate that was about three times the industry average, reflecting vulnerability to general economic conditions and unemployment of the populations that the MDIs served. When MDIs consolidated through mergers, failures or acquisitions, just under half of the MDI charters were acquired by other MDIs, but 87 percent of assets of failed MDI institutions were sold to MDI acquirers. This is consistent with our statutory goal to preserve minority character in mergers and acquisitions.

The study reviewed financial data that indicated that the characteristics of MDI balance sheets generally resemble those of community banks, with a reliance on core deposits to fund loans that are mostly related to residential and commercial real estate, although an increasing percentage of MDIs have specialized in commercial real estate lending over time. The wide size variation among MDIs, in addition to the significant amount of structural change in this segment, makes long-term group comparisons of MDI performance difficult. Nonetheless, during the 13-year period, some MDIs appear to underperform non-MDI institutions in terms of standard industry measures of financial performance such as pretax return on assets.

Generally, MDIs were found to perform much like community banks with regard to net interest income and noninterest income, but some experienced higher expenses related to problem loans, as well as higher overhead expenses. Smaller MDIs, especially, were found to have much higher noninterest expenses compared with larger MDIs and community banks. In addition, smaller MDIs also were found to be less efficient than both midsize and larger MDIs, as well as non-MDI community and non-community banks. Several factors may contribute to these differences in performance, including the concentration of MDIs in metropolitan areas and the relatively young age of MDIs.

The study also showed that MDIs are very successful in meeting their mission to promote economic viability of minority and underserved populations. MDIs successfully reached low and moderate income (LMI) households: 46 percent of the service area populations served by MDIs were in LMI income census tracts compared to 17 percent for community banks and 27 percent for non-community banks. In addition, MDIs provide mortgages in lower income neighborhoods: 25 percent of MDIs' reportable mortgages (under the Home Mortgage Disclosure Act) were made to residents of LMI census tracts compared to 9 percent for all other types of institutions. MDIs also successfully reach their target populations in a way that other institutions do not. For example, the median African American MDI in 2011 made 67 percent of its mortgage loans to African Americans. Similarly, the median Asian American MDI made 57 percent of its mortgages to Asian Americans and the median Hispanic American MDI made 65 percent of its mortgages to Hispanic American borrowers. In contrast, non-MDI institutions' lending percentages to those borrowers was 2 percent or less.

## Other 2014 Initiatives

In 2014, the FDIC continued to advocate for MDI and Community Development Financial Institution (CDFI) industry-led strategies for success, building on the results of the 2013 Interagency Minority Depository Institution and CDFI Bank Conference. These strategies include industry-led solutions; MDI and CDFI bankers working together to tell their story; collaborative approaches to partnerships to share costs, raise capital, or pool loans; technical assistance; and innovative use of federal programs. In 2014, FDIC began working with the OCC and Federal Reserve to plan for the 2015 biannual interagency conference to preserve and promote MDIs, to be held July 13-15, 2015 in Washington, D.C.

FDIC's Chief Accountant Bob Storch discusses Troubled Debt Restructuring at a technical assistance roundtable for MDI and CDFI bankers.

## Technical Assistance

The FDIC continually pursued ways to improve communication and interaction with MDIs and to respond to the concerns of minority bankers. In addition to active outreach with MDI trade groups, the FDIC annually offers to arrange meetings between regional management and each MDI's board of directors to discuss issues of interest. In addition, the FDIC routinely contacts FDIC-supervised MDIs to offer return visits and technical assistance following the conclusion of each safety and soundness, compliance, Community Reinvestment Act, and specialty examination to assist bank management in understanding and implementing examination recommendations. These return visits, normally conducted 90 to 120 days after the examination, are to provide recommendations or feedback for improving operations, not to identify new problems or issues. MDIs also may initiate contact with the FDIC to request technical assistance at any time.

In 2014, the FDIC provided 119 individual technical assistance sessions, up from 109 during 2013, on approximately 80 risk management and compliance topics, including, but not limited to, the following:

- Bank Secrecy Act and Anti-Money Laundering
- Basel III Capital Rules
- Branch Opening and Closing Requirements
- Commercial Real Estate Concentrations
- Community Reinvestment Act
- Information Technology
- Interest Rate Risk
- Loan Underwriting and Administration
- New mortgage Rules/Ability to Repay
- Sensitivity to Market Risk
- Third-Party Risk Management
- Troubled Debt Restructurings

## Outreach, Training and Educational Programs

The FDIC regional offices also held outreach, training and educational programs for MDIs through individual meetings, conference calls and banker roundtables. In 2014, the regional offices and headquarters provided over 40 sessions across the nation for MDIs. The topics of discussion for these sessions included many of those listed above, as well as the FDIC's Technical Assistance Video Program, Capital Raising, and Prompt Corrective Action.

## 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. FDIC solicits qualified MDIs' interest in the failing institution, discusses the bidding process, and upon request, offers 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 2014. As noted earlier, in one case, an Asian American MDI with approximately $954 million in total assets was acquired by another Asian 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, a Hispanic American MDI with approximately $66 million in total assets was acquired by a non-MDI. 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.

## Asset Sales and Outreach

The FDIC also works to encourage participation of small, minority and women-owned investors in FDIC failed bank asset sales programs. Minority and women investors participated in eight of the ten FDIC Division of Resolutions and Receiverships (DRR) cash sale transactions during 2014. These transactions had an aggregate book value of $772 million, and were closed between January 2014 and December 2014. All of the 153 minority- and women-owned firms that were then on DRR's Minority and Women Owned (MWO) Investor list were notified of the sales; 35 submitted documents necessary to review loan files associated with loans being sold; and, 14 submitted bids.

The FDIC initiated marketing of one structured transaction sale consisting of assets from an MDI that failed in October 2014. The assets included in the sale consisted of performing and non-performing hospitality, commercial real estate and commercial/acquisition, development, and construction loans, with approximately $261 million in unpaid principal balance. This 2014 transaction was announced to prequalified investors, of which 158 were MWO Investors and Minority or Woman Owned Business (MWOB) firms, on December 1, 2014. No structured transactions were closed in 2014.

The FDIC continued to utilize the Investor Match Program (IMP). The IMP is a Web-based platform sponsored by the FDIC for companies, including MDIs, to share information with other companies that have pre-registered with the FDIC to receive information on structured loan transactions. These programs were designed to increase the opportunities for smaller investors, which are often minority- and women-owned companies, to take part in the process.

The FDIC participated in a combined total of 21 business expos, one-on-one matchmaking sessions, and panel presentations. At these events, FDIC


MDI CEOs Rebeca Romero Rainey and Alan Thian discuss industry-led solutions.

staff provided information and responded to inquiries regarding FDIC business opportunities for minorities and women. In addition to targeting MWOBs, these efforts also targeted veteran-owned and small disadvantaged businesses. Vendors were provided with the FDIC's general contracting procedures, prime contractors' contact information, and forecasts of possible upcoming solicitations. Also, vendors were encouraged to register through the FDIC's Contractor Resource List (a principal database for vendors interested in doing business with the FDIC). In 2014, MWOBs in the Contractor Resource List increased by 322 firms.

FDIC's Office of Minority and Women Inclusion (OMWI) hosted an interagency Technical Assistance Day for MWOB and Minority and Woman Owned Law First (MWOLF) business owners on December 2, 2014. This event provided a venue for various business owners to become better acquainted with the FDIC's contracting process, receive technical assistance on effective Proposal Writing, and learn about services offered by the Minority Business Development Agency and the Small Business Administration's Procurement Technical Assistance Center. OMWI and DRR also conducted a series of outreach events to raise awareness and provide information on how to purchase owned real estate (ORE) through DRR's Owned Assets Marketplace and Auctions Program, as well as other loans and ORE assets from the FDIC, through cash loan sales and structured transactions. The events also facilitated interaction between smaller investors and asset managers and real estate professionals, including MWO Investors. These included informational sessions in Chicago and New York City in November. Information regarding the Owned Assets Marketplace and Auctions Program can be found on the FDIC's website at www.fdic.gov/mwop.

## 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. MDI bankers also provide 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, 2014**

**Attachment 3: FDIC research study,** *Minority Depository Institutions: Structure, Performance, and Social Impact* **(July 2014)**

# Preservation and Promotion of Minority Depository Institutions

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FEDERAL DEPOSIT INSURANCE CORPORATION, Washington, DC 20429

MARTIN J. GRUENBERG
CHAIRMAN

January 6, 2016

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

Dear Senator McConnell:

In accordance with Section 367 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, Public Law 111-203, and Section 308 of the Financial Institution Reform, Recovery and Enforcement Act of 1987, Public Law 101-73, the Federal Deposit Insurance Corporation submits its Fiscal Year 2014 report on activities to preserve and promote minority ownership of minority depository 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 2014 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 Andy Jiminez, Director, Office of Legislative Affairs, at (202) 898-6761.

Sincerely,

Martin J. Gruenberg

Martin J. Gruenberg

Enclosure

FEDERAL DEPOSIT INSURANCE CORPORATION, Washington, DC 20429

MARTIN J. GRUENBERG
CHAIRMAN

January 6, 2016

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

Dear Congresswoman Pelosi:

In accordance with Section 367 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, Public Law 111-203, and Section 308 of the Financial Institution Reform, Recovery and Enforcement Act of 1987, Public Law 101-73, the Federal Deposit Insurance Corporation submits its Fiscal Year 2014 report on activities to preserve and promote minority ownership of minority depository institutions.

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MARTIN J. GRUENBERG
CHAIRMAN

January 6, 2016

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

Dear Senator Reid:

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MARTIN J. GRUENBERG
CHAIRMAN

January 6, 2016

Honorable Paul Ryan
Speaker
House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

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FDIC-035-2015