



Episode 2: Minority Depository Institutions

BRIAN SULLIVAN: Welcome back to the FDIC Podcast, an opportunity to hear from some of the nation's top people in the world of banking about some of the big issues facing banks and ultimately, YOUR money. I'm Brian Sullivan at the Federal Deposit Insurance Corporation. And in this episode, we're gonna dive a little more deeply into the state of the banking sector during this time of economic uncertainty. In our previous episode, we heard from FDIC Chairman Jelena McWilliams about our current global public health emergency and the impact it's having on our banks. And in particular, a special kind of bank called a Minority Depository Institution.

CHAIRMAN MCWILLIAMS: With respect to the Minority Depository Institutions, those are institutions that are generally owned by minority personnel or shareholders, and managed by a minority director or a board or executive team. Frankly, those institutions are going to be, in some cases, particularly hard hit. When we think about the African American community, the Minority Depository Institutions, or so-called MDIs that exist in those communities, they generally get low deposit amounts in their checking accounts. Because of the economic conditions, it's going to be even more difficult for those banks to maintain those accounts and make sure that their borrowers have adequate means to satisfy the monthly payments or to have the credit. At the FDIC, we have made specific emphasis on MDIs and particularly on African American MDIs to make sure that they can survive and continue to prosper. Because frankly, the number of African American MDIs in the country has been shrinking, and we would like to reverse that trend. We would like for those communities to thrive, and we would like for the African American banks, in particular, to be able to continue to function in their communities, and provide responsible credit and financial services.

BRIAN SULLIVAN: Joining us to talk about Minority Depository Institutions and the critical role they play in our nation's banking system is Alden McDonald, the President and Chief Executive Officer of Liberty Bank, based out of New Orleans, an African American owned and managed bank since 1972. Mr. McDonald also sits on an advisory panel that helps to guide the FDIC on a range of issues impacting Minority Depository Institutions, and for many years,

advised the agency on economic inclusion. Mr. McDonald, thank you so much for being with us.

ALDEN MCDONALD: Thank you for having me.

BRIAN SULLIVAN: Now, why are banks like yours so important?

ALDEN MCDONALD: Well, banks like Liberty, which started in 1972, was really built around the need of providing financial services for all people in a community. And in particular, the African American community. Because back in '72, financial services were not readily available through the banking system in many parts of the country. So even today, we have a lot of people outside of the mainstream of banking that we serve. And as a result of the African American banks in the different communities, the service area involves not only lending on a consumer basis, but to try and help homeownership, which is very important to all communities. Because when we lend for homeownership in communities, the homeownership ratio has a detrimental effect, both positive and negative, okay? And from the negative side, if your homeownership ratio falls bit—below a 52% homeownership ratio, you begin to see deterioration in a community. So, when you have deterioration in real estate in any community, price values decline, and as a result of that, you have a smaller tax base. So, the economic impact for African American financial institutions lending and working in these areas that has been left out of the mainstream is very important to the local economy. So, the amount of economic progress that we make, because we have an African American community bank in those communities are very, very, very, significant. And it is significant because we are holding up an economic base that ties to the local community tax base and all types of economic drivers. And if you don't have that, those communities would deteriorate even further.

So that's why the emphasis on African American banks in these communities are so important. As the Chairman mentioned, normally an African American bank would have high volume, low balance accounts. So as a result of high balance, low balance accounts, we have to find a way to balance the scale. So, individuals outside of the banking community who would like to support minority banking, you could support minority banking by placing deposits, by borrowing money because it helps balance the scale. Because even though we're an African American owned bank, we still have to abide by the banking system's rules and regulations. So that model that we have developed almost 100 years ago, helps us to become a very balanced and a financial institution who can do both, who can service the community, and also increase the economic well-being of a community.

BRIAN SULLIVAN: Right. Well, and looking at your institution's nearly 50-year history, your bank has grown quite a bit since those days you opened that first branch office out of a trailer on Tulane Avenue. I'm thinking now about the decline of the oil prices in the late '80s and goodness, Hurricane Katrina in 2005, you've seen an awful lot. What does it take to survive and even thrive as an MDI?

ALDEN MCDONALD: Well, we have a good staff. And our staff has more than 200 years of banking experience. So, the staff knows how to service that part of the community. We've been doing it for some time. We've been through a lot of rises and falls in the economy. And as a result of that, we've been able to balance the business model to make it work. The people that we lend money to, even though they may have smaller credit scores or less credit scores that is typically looked at in the normal community, it's an underwriting technique that one would apply. And my grandfather years ago told me that 97% of the people in the world are honest. So, when you make policy, don't make it based on the 3%, make it based on the 97%. So as a result of that, knowing people in the community-- my father was a waiter since he was 14 years old. So, I grew up in an environment knowing how to make ends meet. And our family was always in a depression, but we didn't know it at the time. So, we've learned how to live from paycheck to paycheck, and we've learned how to live on less. So as a result of that history in our backgrounds, we understand people a little bit more and understand the challenges in these communities. So, in understanding the challenges, we're able to underwrite to get our money back. And when I say get our money back, we may have higher delinquency rates, or we even have higher charge-off rates, but we have put a business model together to offset that higher risk. And that's why African American banks throughout this country has been successful in the different environments, the different economic environments that we've experienced.

BRIAN SULLIVAN: Are Minority Depository Institution, MDI's, any more sensitive or vulnerable to periods of uncertainty like we may find ourselves in right now?

ALDEN MCDONALD: Yes, absolutely. And that's a very, very good question and statement. We've been around for 48 years. I've been in banking for 54 years. And I've been through a lot of economic downturns. And what we have found is that where the country may come out of a recession within three, three and a half years, it takes almost ten years for a minority community to come out of a recession. And when it comes out of the recession, the damage that has been done in those communities takes a longer time to recover. In addition to that, you find that most of the people in the African American community will be laid off during a recession. And we think the same thing's going to happen this time around. So, you're going to have more of the minority African American population who's going to be laid off, because businesses in this economic downturn is going to have some challenges. And we'll go out of business and we'll find our way of having a new norm. So, we're anticipating that the unemployment rate in the African American community is going to be higher. So, what we have to do, we have to design a business model to receive that. And how do we offset or mitigate that risk, which is a little bit more challenging than the normal or the average bank with a different mixture of business.

BRIAN SULLIVAN: Well, how are banks like yours, channeling private investment to further serve the people and places that have traditionally been underserved?

ALDEN MCDONALD: Well, we channel those investments through loans, through our products, et cetera. We've been attempting to crystallize a product to help people who are using payday lending. Payday lending costs consumers 500-600% interest. Whereas, we have put a product together over the years that will help people who are in a payday lending space to consolidate some of their debt. The other product that we have, for example, we have a credit card that the most we charge is 18%. But the average individual, or the individual being approved for our credit card will come in at a 14.9 interest rate, and as low as a 7.9 interest rate fixed. So, all of our rates are fixed-rated loans. It's not variable, it's not tied to prime, and it's not a teaser rate. And we find that by extending a credit card with a lower interest rate to this population, we are saving them almost 50% of the interest that they are paying on a traditional credit card. So, when we do that, we're putting more money back into the pockets, in the hands of individuals who are living from day to day, and who's making basically and barely a minimum wage. So, these are some of the products and some of the services that we've done and had for the last 48 years to help the population increase their spending power.

BRIAN SULLIVAN: Imagine a world without Minority Depository Institutions. What would that world look like for you?

ALDEN MCDONALD: Well, the world without a minority or an African American financial institution would go back to what I experienced when I was a child. And my parents could not get finance from a traditional bank. It would go to the payday lending type areas. It would go back to finance companies that charge enormous rates. And [clears throat] with these enormous rates being charged, it reduces the spending power. It reduces the amount of money needed every day to live. So, what we will have, we will have poor people becoming even poorer. So, the need for an African-American bank, a need for a Minority Deposit Institution, because it has the same effect in the Hispanic community, in other communities of color, it gives a little bit more spending power and it helps individuals cope in today's world, in today's economic challenges. And we have a situation in the country where a huge percentage of these individuals are not making a livable wage. And as prices increase, it becomes even more challenges-- it has more challenges for individuals to make it from day to day. So, what we do, we're really helping the economy and helping people get through the economy as best as we can. So, if we had more Minority Deposit Institutions, we can help more people, because we can't help everybody, but we certainly help a huge number. For example, in our particular institution, we service almost 50,000 customers. So, 50,000 customers in a bank size of-- right at \$700 million, that customer base for a \$700 million bank in a typical banking industry might be 20,000 customers.

BRIAN SULLIVAN: And let me get your impression on this idea...that if *not* for Minority Depository Institutions like yours, many more families would have no relationship to a bank at all.

ALDEN MCDONALD: Absolutely. That is correct. And what the FDIC has done over the years they have found different ways and different methods of getting more people into the banking community, because the numbers show that if you bring more people into the banking sector, it helps individuals improve their quality of life. And also, their spending power.

BRIAN SULLIVAN: Alden McDonald is the President and Chief Executive Officer of Liberty Bank out of New Orleans with branch offices in now nine states?

ALDEN MCDONALD: Nine states in ten different cities.

BRIAN SULLIVAN: Mr. McDonald, thank you so much for joining us on the FDIC Podcast.

ALDEN MCDONALD: Thank you very much for inviting me, and thank the FDIC for all they do to make inclusion of all people into the banking system. A very, very plus for our community.