Minutes of the meeting of the Minority Depository Institutions Advisory Committee
April 25, 2023

Depository Institution Advisory Committee (MDIAC) convened its hybrid (in-person and virtual) meeting at 8:15AM Eastern Daylight Time on April 25, 2023. The meeting was open to the public, as required under Public Law 92-463. The committee members, Office of the Comptroller of the Currency (the OCC), management external panelists and staff attended largely from OCC Headquarters in Washington, DC. Public observers and some OCC management and staff not in OCC Headquarters attended virtually from around the United States.

Committee Members Present:

Jamie Aller, General Counsel, The National Bank of Malvern, Malvern, PA; John Hou, Chief Executive Officer and President, Asian Pacific Bank, San Gabriel, CA; William Hurley, Chairman, Chief Executive Officer, Chief Financial Officer and Legal Counsel, Southeast First National Bank, Summerville, GA; Jonathan Jacob, Head of Minority Depository Institution and Strategic Partnerships, Wells Fargo, Charlotte, NC; Beverly Meek, First Vice President, CRA Director, Flagstar Bank, FSB, Troy, MI; **Michael Pugh,** President and Chief Financial Officer, Carver Federal Savings Bank, New York, NY Joe Quiroga, President, Texas National Bank, Mercedes, TX;

External Speaker Present:

Terrance J. Smith, Manager, Financial Agent Oversight Branch, Revenue Collections Management, Bureau of the Fiscal Service, U.S. Treasury, Washington, DC

Management and Staff from the OCC Present:

Michael J. Hsu, Acting Comptroller of the Currency; Jorge Aguilar, Counsel, Washington, DC; Jason Almonte, Director, Licensing, New York, NY; Charlotte Bahin, Senior Advisor for Thrift Supervision, Washington, DC; Lori Bittner, Assistant Deputy Comptroller, Boston, MA; Emily Boyes, Counsel, Bank Advisory, Washington, DC; Chanis Brown, Community Relations and Minority Affairs Specialist, Washington, DC; Beverly Cole, Senior Deputy Comptroller for MCBS, Washington, DC, Crystal Dully, Community Relations and Minority Affairs Specialist, Washington, DC; Lissette Flores, Community Relations and Minority Affairs Specialist, Washington, DC; André King, Assistant Deputy Comptroller, Chicago, IL; Ernie Knott, National Bank Examiner (Financial Analysis), East and Northeast Regions, New York, NY; Karen McSweeney, Special Counsel, Bank Advisory, Washington, DC; Andrew Moss, Director for Minority Outreach, Washington DC; Linda Nichols, National Bank Examiner, Washington DC; Valarina Oliver-Dumont, Bank Examiner (Licensing Analyst), Chicago, IL; Erica Onsager, Counsel, New York, NY; Ancris Ramdhanie, Special Counsel, New York, NY; John Scarpa, National Bank Examiner, New York, NY; Andrea Shearin, CRA/FL Compliance Policy Specialist, Bank Supervision Policy, Washington, DC; Gjergji Shuku, National Bank Examiner, New York, NY; Johnny Stanley, Deputy Comptroller, East and Northeast Regions, New York, NY; Mallory Sutton, Assistant National Bank Examiner, Atlanta, GA; Jasmine Talton, Counsel, Southern District Office, Dallas, TX; Barry Wides, Deputy Comptroller for Community Affairs, Washington, DC

Public Observers:

Lorenzo Amani, Industrial Bank, Washington, DC; Michael Batts, Jr., MB Development Services; Sabrina Bergen, Senior Vice President, American Bankers Association, Washington, DC; Leon Brunson, Obsidian Economics; Sonja Ellis, FDIC, Office of Minority and Community Development Banking, Washington, DC; Tamer El-Rayess, Grand Bank, Hattiesburg, MS; Shannon Herbert, Stratyfy, New York, NY; Linda Langston, Waterford Bank, Toledo, OH; Kianga Lee, Independent Community Bankers of America, Washington, DC; Annika Parker, Ohio Department of Commerce, Columbus, OH; Sara Reid, Public Policy Liaison, Fis Global, Washington, DC; Betty J. Rudolph, Director, Office of Minority and Community Development Banking, FDIC, Washington, DC; Christine Turner, First National Bank of Omaha, Omaha, NE; will Waller, MSF, Inc., Salt Lake City, UT

Call to Order and Welcome

Andre King, Assistant Deputy Comptroller and Designated Federal officer welcomed the members and members of the public to the meeting of the OCC's Minority Depository Institution Advisory Committee.

He provided the members of the Advisory Committee and the members of the public in attendance with notice of the Advisory Committee rules for public meetings. He said that the MDIAC is a federal advisory committee formed to advise the OCC to meet the goals established by Section 308 FIRREA to preserve the number of MDIs, preserve the character of MDIs in the event of merger or acquisition, provide technical assistance, and encourage the creation of MDIs. He emphasized advice language in the charter. OCC staff wants to hear from the Advisory Committee members. He said that OCC wants to engage in conversations with the Advisory Committee.

He reminded Advisory Committee members the public is invited to the meetings and that minutes are taken. He also reminded the Advisory Committee members that they represent their institutions as well as the similarly situated MDIs. He welcomed the new members to the committee as well as the returning members.

He said that consistent with the membership balance plan, appointments as representative members were primarily based on their understanding of the background, history, focus, and challenges of MDIs, as well as expertise and familiarity with the unique issues facing the MDIs. He noted that three Advisory Committee members could not join the meeting. Mr. King will reach out to those individuals after the meeting to share the thoughts and comments that were made at the meeting, as well as to ask them about any comments or concerns that they may have.

Mr. King introduced himself and provided a summary of his background. He has been at the OCC for 20 years. He started his career at Overland Park, Kansas in community bank supervision. During the great recession he worked with a lot of problem institutions. He transferred to Chicago as a problem bank analyst. For about four years, he served as a team leader in the Chicago, and he has been the Assistant Deputy Comptroller in the Downers Grove Field Office for the last five years.

Mr. King thanked Beverly Cole, the Senior Deputy Comptroller for Midsize and Community Bank Supervision. She was the first Designated Federal Officer for this Advisory Committee. He said that when the Acting Comptroller joins the meeting, each Advisory Committee member can introduce themselves.

The OCC staff attending the meeting introduced themselves.

Mr. King welcomed the Acting Comptroller, Michael J. Hsu. The Acting Comptroller welcomed the Advisory Committee members to the meeting and said that a lot had happened since the last MDI AC meeting. He said that there are three buckets of issues or concerns that he is interested in hearing about. The first is what the Advisory Committee members are seeing in the post Silicon Valley Bank environment. Are there questions or concerns from depositors. The second question is whether the Advisory Committee members are seeing trends toward consolidation. He said that it is important to preserve diversity in the banking system. He asked whether there are impediments to the chartering of de novo banks.

The Acting Comptroller said that the OCC had chartered an MDI de novo last year in Houston and it took a lot of work. He said that he wants to build on that momentum. He also is interested in revitalizing MDIs. He said that there are examples of activities assisted by Project REACh that are intended to help revitalize MDIs, including programs where employees are loaned to MDIs in areas where the MDI needs the expertise.

An Advisory Committee member said that in the aftermath of the Silicon Valley a lot of the bank's customers reached out to bank staff and expressed concern about the health of the bank. She said that they had been directing the customers to the bank's call report.

She said that the bank's customers realize that it is not too big to bail and if something happened at the bank, it would be gone. They have the capital to cover if it lost a lot of the uninsured deposits over $250,000 deposits. The system has created perverse incentives. She said that another Advisory Committee member had reached out and it was exciting. An OCC staff person had tried to put the two in touch and had asked several regional banks to contact her bank, but the Advisory Committee member said that the bank is very small and conservative, and only likes to lend in its footprint. They have been looking for loan precipitations that would be helpful. One of the regional banks has a lot of branches in the footprint and they have been trying for two years to get something going.

The Advisory Committee member said that at the CEO level, regional banks actually want help, but then once the request trickles down to the lenders, they are not as interested. The bank will participate in the existing loan, but the lenders do not want to lose any balances in their books that would affect their pay. If the regional bank or the loan is not in the bank's footprint, the bank is not going to lend. With these issues, establishing real relationships can be hit or miss.

An Advisory Committee member described his bank and the areas it serves. He said that because of the market his is in three to five of the largest financial institutions have a significant presence in his core markets. Historically, many of those financial institutions were not in the markets that the MDI serves but they have started to develop a large presence. The reason that that background is important is because post Silicon Valley Bank and Signature Bank failures is that the MDI's challenge is that much of the community is concerned whether community banks are safe in terms of being able to maintain their deposits. Their general view has been, if the deposits are placed in the larger financial institutions, they are more likely to be secure even in a more challenging environment. He said that he spent a significant amount of time reaching out to the bank's customers. The bank has had a constant stream of communications that highlighted the MDI's safety and soundness. He said that he thinks the secret sauce that has helped them to be able to retain any of the customers is the accessibility to leaders of the bank.

The Advisory Committee member said that in his bank the top 100 customers typically represent roughly 20 percent of the deposit balances. Those are customers that have the ability to call the Advisory Committee member, as CEO, directly if there are questions. He said that he encourages the largest institution partners to place deposits with the bank. Those institutions have significant importance to the communities that the bank serves.

He said that if there is a way to have some of the money placed with the MDIs and CDFIs, it would benefit everyone. The work that MDIs and CDFIs do has a direct impact at a hyperlocal level for the bank, 80 cents of every dollar the bank has on deposit gets reinvested in the communities it serves. The ability to build this concentric circle or ecosystem, has a direct impact on those local communities.

The Acting Comptroller asked whether the Advisory Committee member meant that when he said that consumers feel that their money is more secure at one of the biggest banks he meant that is because they feel like the big banks are better capitalized or better run, whether they are safer or whether that if there are problems, the government is going to ensure all of their deposits and bail them out, or some combination thereof.

The Advisory Committee member said that it is the latter. What they have heard from customers is if there is a real problem, money is more likely to be covered by the government if it is at one of the larger financial institutions. He said that when consumers think about the economic and financial landscape of the nation, the average household has less than $500 of disposable money saved. It is not the everyday working American that is close to monitoring that FDIC insurance limit because they do not have that level of liquidity. But for those that are above the limit, and the not-for-profit organizations, the companies and the small businesses that are banking at community banks are concerned. He added that especially within the small business sector, because their operating ecosystem is so dependent on the safety and soundness of the financial institution they chose, if something happens, payroll, employment, everything goes.

An Advisory Committee member thanked the Acting Comptroller for attending the meeting. He said that he wanted to follow up on the definition of too big to fail that was reaffirmed. An institution is too big to fail and therefore all the deposits were guaranteed. He said that too big to fail for a community of his size is every bank. It would cripple the community if depositors in the local community lost their deposits.

He said that the conversation needs to be opened again. There are certain sectors of either the community banking space or MDIs that consumers should not worry about. They are placing their deposits in the safest available place. They are not in the stock market; they are at the bank. The deposits are payroll money and operating funds. The customers should not have to worry about the safety of their money.

The Advisory Committee member also said that as an MDI his bank is very active in a lot of the conversations and partnerships with the largest banks in America and he said that that it is hard to get deposits. It is because there are safety mechanisms in place to be able to ensure that both organizations are protected. He said that the intervention of the OCC has been extremely helpful. Project REACh and some of the partnerships that have been created are working.

He said that the Acting Comptroller had asked about preserving MDIs and barriers to forming de novos. From the perspective of a banker, the establishment of a de novo is the absolute last resort. It is very hard. He said that it is difficult to operate in the first three years. The industry looks at it that way and they would rather buy a small institution and do what they need to do with it. Because there has been an acceleration of capital in the space, there will more consolidation between the MDIs themselves. He said that his bank is looking and exploring other MDIs because they have a lot of capital to deploy.

An Advisory Committee member said he has given all the advice he can, and the organizers work with the OCC to get their charter, he tells them that they should not start up a female-owned bank because they think that being a female-owned bank is going to get them where they need to be. His bank is involved with different programs and the bank has access to Citi ATMs and has a deposit with a regional bank as an MDI. That is the extent of the benefit. He tells organizers not to build the business model around being a minority-owned bank because it will not succeed. He tells them that they need to be able to independently stand, and then the fact that the bank is an MDI might move the mark a little bit in one direction or the other. That cannot be the core business model.

An Advisory Committee member described their bank and said that at the size of the bank that is a miracle that they run profitably. She said that the minority deposit program exists but does not function. It exists in name, but it is really partnerships that have been created out of Project REACh and other informal conversations that provide success stories.

An Advisory Committee member said that his bank is a CDFI and that the process is time consuming. The Treasury Department is reconsidering some of the procedural steps around CDFI applications. There should be a more seamless process.

An Advisory Committee member said that there is an opportunity for the MDIAC to explore CDFI loan funds and where they are banking and what their deposit relationships are. He said that if there is a way to encourage or incent CDFI loan funds to place their deposits and have their banking relationships with CDFIs and MDIs, they should.

An Advisory Committee member introduced himself and his large bank. He said that the bank made investments in 13 MDIs a few years ago, including, Carver Federal. He said that they have been fantastic partners. But now, the bank has a full-service platform for serving diverse owners and diverse businesses across the investment banking platforms. The bank has an area focus through programs, through the Economic Opportunity Coalition, of which the bank is a founding member. The bank met with Treasury a few weeks ago, and the primary point of discussion was that the commitment has been made.

The Advisory Committee member said that over the last six months they have met with de novos in Iowa, Utah, and Ohio. There are a number of banks in formation, but the balancing act is that there are MDIs of varying sizes. The bank has invested in a few with a million dollars. There are some that are extremely small and what is clear about scale is the last thing that is needed is 25 more 20 million banks. The bank wants to provide its support and backing the way they originally thought about the investments, but where it has boots on the ground. Where are the stakeholder relationships. He said that the other area that he leads at the bank is making investments in tech platforms and funds as part of which the bank is looking at FinTech platforms that have specific products and making introductions where an MDI wants to scale FinTech partnerships.

An Advisory Committee member introduced herself and her institution. She said that she would like to talk about what the bank can do locally or regionally with an MDI. The bank can make deposits in MDIs. They have four MDIs in which the bank is investing and the bank plans to expand its program. Regionally, she said that if MDIs can work with regional banks, on community initiatives and projects, that is one way to strengthen the relationship and also make an impact overall in the community.

She said that the bank invests in CDFIs as well and she thinks that there needs to be more communication. When she gets back, she plans to pull a list of the MDIs and CDFIs so they can work on issues together. She said that the bank needs to understand more about what the needs of MDIs are, and work together on specific initiatives that with low to moderate income individuals and families in the community.

An Advisory Committee member thanked the Acting Comptroller for reducing the OCC assessment and for his support of community banks. He said that he is concerned about the long-term viability of MDIs. He describes the history of his institution and the community it serves. He said that it is an oversaturated market. He is worried about small community MDIs not being about to compete in the market.

The Acting Comptroller said it is important to remember that location matters. It is important to balance the overall mission to make sure that the efforts that are focused on promoting both MDIs and community banks are where they are needed most, not in an oversaturated market.

He said that he would like to get perspectives of the Advisory Committee members on their direct experiences or opportunities with FinTechs. An Advisory Committee member said that is right at the core of what kind of what his bank is doing. He described his experience with the PPP. The bank did a significant amount of PPP lending both in market and out of market. The out of market was in partnership with the FinTech that taught the bank things. There is a desire to coexist, and there is a lot of learning that is happening between the FinTechs and small minority owned institutions. The way in which the bank scaled things and leveraged technology really taught the entire bank.

The Advisory Committee member said that his bank went from a bank that was used to doing things in traditional ways to having of all of its staff talking about APIs, integrations and workflows. The bank has three different initiatives right now, one of which was profiled in the American Banker about a partnership the bank has with the FinTech to look at non-traditional and alternative deposit data and use that as a way to do micro lending for small business.

The Acting Comptroller said that it matters who those customers are and what the terms are upon which the bank is doing the product or service which is closer to the banking model. Then there is the march of technology and the need to modernize. Increasingly there is a two-sided risk where there is the risk of moving too fast. That is something that the OCC as bank regulators and supervisors are always going to watch carefully if banks move too fast, for example, Silicon Valley Bank and other examples that can lead to flags for issues. But increasingly, if banks move too slowly, they have got the exact same kind of issues. Banks need to find the sweet spot where they are making moves and investments to being able to do APIs, integrations and other things, but not so quickly as to imperil safety and soundness.

He said that it is not an easy thing. It is something that banks need a lot of engagement with technology companies, with different stakeholders, cloud providers and others, to figure out where is that path and how do companies calibrate for institutions of all sizes and business models. Because what works for the large banks and the regional banks may not work for community banks and MDIs. There is a scale challenge.

The Acting Comptroller said the OCC is taking advantage of things that were already in regulation, for example special purpose credit, small dollar, small business underwriting credits. They are already embedded in OCC regulations and the agency is dusting them off and applying them to a FinTech type model.

He said the OCC opened the Office of Innovation in 2016 and the agency recently rebranded that unit into the Office of Financial Technology, recognizing that it is no longer just innovation. The agency hired a new chief financial technology officer and part of the task is going to be to make sense of the landscape between banks and FinTechs.

A starting point is the third-party risk management guidance, but there are so many different kinds of relationships that can be healthy or unhealthy. He said the agency is trying to piece through what they are and how to ensure safety and soundness while creating space to allow adaptations and healthier relationships. The Acting Comptroller thanked the Advisory Committee members for their insights and participation.

Update of the State of MDIs - MDI Financial Trends

Mr. King introduced Ernie Knott, financial analyst in the Northeastern Region and asked him to begin his "State of the MDIs" financial presentation. Mr. Knott provided a summary of his background and began his slide presentation. (The slides are posted on OCC.gov.)

He described the information on slide 3. He described the demographics of portfolio of OCC-supervised banks. This includes statistics on charter trends. OCC supervises a diverse group of 1,135 charters, or 1,023 bank charters. MDIs are either national banks or stock FSAs. The slide shows that OCC-supervised MDIs represent 53 or 5.2 percent of OCC bank charters and 34.4 billion, or about 4.1 percent of community bank assets.

Mr. Knott said that the banking system continues to consolidate, and due to mergers and acquisitions. The OCC departure rate was about 3.4 percent in 2022. This is better than the industry average, which is about three to five percent in the last decade. The other factor is the low number of de novos putting upward pressure on the consolidation rate.

Slide 5 shows the percentage of MDIs in each demographic group and the geographic breakdown. Slide 6 is a map that shows the OCC-supervised MDIs by state. Slide 7 shows which peer groups MDIs are allocated. Slide 8 shows the distribution of MDIs by asset size and age. He noted most MDIs are generally smaller in size than peer community banks. Most MDIs were established more recently than average community banks. Slide 9 shows the top MDIs by lender peer. He explained that instead of size or geography, the agency can provide analysis using peer groups based on the lending profile. The slide also shows the sizes of branch networks of MDIs.

Slide 10 shows the composite and specialty ratings of OCC-supervised MDIs. The overall condition of OCC-supervised MDIs is satisfactory and improving. Slide 11 shows the risks and the supervisory cycle. The top three risks for OCC-supervised MDIs are strategic, credit and operational. These risks are very similar to the community bank population as a whole.

Strategic risk is high because of banks' inability to respond to a changing industry and remain profitable. Credit risk remains moderate in the current cycle. There are some areas of weakness since the pandemic, but rising interest rates put stress on marginal borrowers, especially as those borrowers try to refinance. Slide 12 shows the most common Matters Requiring Attention and Violations of Law giving to OCC-supervised MDIs for the past two years. Slide 13 shows the median capital levels of OCC-supervised MDIs. They are higher than the community bank peers, but the leverage capital ratios were lower in 2020 and 2021, and that was due to the rapid growth from the pandemic related deposits.

Mr. Knott said that large infusions of capital as a result of programs developed during the pandemic increased the capital levels. An Advisory Committee member asked whether there is information about the geographic distribution of OCC-supervised MDIs that received ECIP funds compared to the distribution of all MDIs.

Mr. Knott said that the capital ratios of MDIs now are higher than they were in 2008. He said that a question is if there were no ECIP what would capital ratios look like. An Advisory

Committee member said that the balance sheets for MDIs and CDFIs will dramatically shift over the next 12 months given the impact of interest expense for deposits. For many MDIs and CDFIs that have had a normal run rate of x amount of interest expense that they could count on as part of their budgeting and planning, when you now consider a 500 basis point rate, rate shock, that number is going to double, if not triple in many cases. He said that it would be interesting to hear more about Mr. Knott's analysis and thoughts in terms of how that expense will impact the overall health, safety and soundness of those institutions.

Mr. Knott said that the cost of deposits is important. He said that he looks at the deposits in the aggregate, but starting next quarter, he would break it down looking at any shifts from all the categories, for example, money market or demand or time deposits. He said that he looked at Silicon Valley and its unsured deposits were over 60 to 70 percent while the average uninsured deposits are about 29 percent.

Slide 14 shows that the capital ratings slipped. He said that there are two ways to determine, if an MDI or any bank is well capitalized. If the bank meets the criteria and it opted into the community bank leverage framework it needs to maintain a nine percent leverage ratio. If the bank did not opt into the CBLR, it is well capitalized using the traditional thresholds. Slide 15 shows that the number of OCC-supervised MDIs rated one or two for earnings is stable. This area, as is the case for community banks, usually lags ratings in other safety and soundness areas. Slide 16 shows ROAA. Mr. Knott noted that several Advisory Committee members have made a point about how important scale is. The bottom chart on the slide breaks out the detail by asset size. He said that in general, the larger the bank is the better. Slide 17 shows net income. He said that to do a proper analysis of earnings, it is necessary to look at both the median and the weighted average. Unlike the median, this slide is going to put more weight on the larger banks here. On the top left, the net income decreased 18 percent due to the contraction in the fee income, the non-interest income. The other item that stands out is the rise in the non-interest expense. Mr. Knott asked the Advisory Committee members what they are seeing in the labor market. An Advisory Committee member said that in his market, competition for tellers is not with other banks but with other employers who hire entry level staff. The salaries have increased substantially. He also said that audit and consulting fees have increased.

Slide 18 shows net interest margin. MDIs as well small banks in general were hurt during that period of the margin compression. Because 88 percent of the revenue of MDIs comes from the net interest margin. Slide 19 shows asset quality and the ratings remained satisfactory. Mr. Knott said that he broke the information into two pieces, the significant past dues and then the 30 to 89 days past due. Slide 19 shows the classified numbers. This is the information the OCC gets from the banks as part of quarterly monitoring. The slide shows a decrease in the classified numbers as of December 31. Chances are this may change when the March 31 numbers are reported, but it is still a good number. Looking at the bottom slide, with CECL and the economic outlook as considering more recession scenarios there may be a higher allowance right now. Mr. Knott thinks that MDIs have it right here, it might stay elevated throughout the year.

Slide 20 shows asset quality. Loan growth is shown on top of the slide. This is loan growth after removing PPP loans, and this was a challenge, because they threw a lot of noise in there, but after adjusting for those, MDI loan growth rose 9.55 percent.

Slide 22 shows liquidity and liquidity ratings remain strong at 97 percent. MDIs have sufficient liquidity. MDI deposits grew 4.1 percent from a year ago. That is down from 9 percent, but the rest of the industry saw a shrinkage in their deposits. This is all before Silicon Valley. Americans are saving less, but when they are, the money is being put more towards paying down debt. Slide 23 shows that on-hand liquidity ratios declined this year, but they are still above the pre pandemic levels.

Slide 24 shows the final CAMELS rating, sensitivity to the market risk. The ratings themselves are very are very good right now. MDIs have higher non deposit, non mature deposits. It will provide some protection in a rising rate environment.

Mr. Knott said that he saw an interview where when banks have some the senior citizens that would normally not take money out from a bank asking what a T-bill pays now, when Ann Bertha does that, you need to take a look at the rates. Slide 25 provides a summary of key observations of the December 31, 2022 trends.

Slides 26 to 30 are new slides that show summary economic forecasts. The visual is from the Federal Reserve of St. Louis. Slide 30 summarizes economic challenges.

Mr. Knott concluded his remarks and said that he has ideas about what he can address at the next Advisory Committee meeting based on the questions that were asked. An Advisory Committee member asked if he could raise an issue that he sees at the OCC. He asked whether the agency is looking at the distinction of women-owned versus women-led when considering that women-owned banks are MDIs. He expressed concern that there is a loophole. He said that he noticed some banks that are not both women-owned and women-led on the list of OCC-supervised MDIs. He said that there are people who believe that there is gaming of the system. Mr. King said that the OCC appreciates those thoughts and comments. OCC staff have had discussions internally about what woman-owned means, especially because OCC is the only agency that acknowledges women-owned as MDIs.

Project REACh Update

Mr. King introduced Andrew Moss the OCC's Director for Minority Outreach. Mr. Moss gave a quick overview and update on what is going on with Project REACh. He said that the OCC staff recently did an assessment of where the agency is with Project REACh and thought about what would be next. He said that they decided to work with the OCC's regional structure and hired regional coordinators to help develop and run the programs.

Mr. Moss provided an update on some of the activities. The alternative credit work stream pilot was launched by three large banks that looked at deposit account transactions as a way to develop a waterfall of credit risk modeling. The pilot has been underway for about a year with more than 400,000 accounts for individuals who were initially deemed credit invisible. He said that this is an opportunity for new individuals who have not been identified by the credit system as a way of being able to be viewed by the financial services industry as credit worthy, looking at how they manage their bank accounts. He said that in addition, they are working with the credit rating agencies Equifax, TransUnion, and Experian.

He said that they are looking at additional data attributes that could be considered for credit modeling as well, and they are finding other ways that are uniform to help expand how credit is evaluated in the home ownership work stream. Mr. Moss said that an Advisory Committee member and his team have put together a webinar on home finance and Indian country. He said that Wells Fargo has worked in coordination with the National Urban League to launch an appraisal diversity initiative, which provides a path for aspiring appraisers to help address some of the disparities in the home ownership valuation.

An Advisory Committee member said that her bank is a large mortgage lender, and they have a lot of experience in appraisals and underwriting loans, and they see differences in communities of color and low to moderate income communities. They appreciate the opportunity to partner with Wells Fargo.

As Advisory Committee member said that he had participated in a regional engagement in California and thought that it was a fantastic approach. Mr. Moss describe the small business work stream and the technical assistance that has bene provided. He said that it gets to “yes” for minority entrepreneurs and women-owned businesses. He said that several participants within the work stream have been exploring interest in special purpose credit programs. He said that they worked with the ABA to develop a website as a special purpose credit program resource hub. He said that as part of the MDI work stream, they have continued to have technical assistance calls to find ways of making sure that the challenges that are facing MDIs are being identified. Mr. Moss described the work with MDIs and their core providers and the work the National Bankers has done.

Treasury Minority Bank Program

Mr. King introduced Terrance Smith from the Department of Treasury’s Fiscal Service ad asked him to describe the Minority Bank Program. Mr. Smith had a presentation which is posted on OCC.gov. Mr. Smith introduced himself and the Fiscal Service. He said that they are responsible for collecting and making payments for the Federal government. He said that his job is to oversee those agreements with financial institutions that collect the funds on behalf of Treasury. He went over the slide beginning with the description of the commitment to diversity, equity and inclusion in the Fiscal Service. He said that the latest Executive Order focused on those goals, but it has been a longstanding part of what the Fiscal Service does.

He said that the programs of the Fiscal Service work with the Federal agencies to use minority banks where it is possible for them to do so. The Minority Bank Deposit Program was started in 1969 by an Executive Order. Five years ago, the Treasury Bank Mentor Protege Program was established.

The slides provide background on the Minority Bank Deposit Program and the Treasury Bank Mentor Protege Program. Mr. Smith said that Treasury has the authority to retain fiscal agents through the National Bank Acts of 1863 and1864 that allows the fiscal agents that to do work on behalf of the government. He explained that right now there are eight large financial institutions that do work throughout the Fiscal Service. He described that the Treasury Bank Mentor Protege program was established by Department of Treasury, Fiscal Service, Revenue Collections and Management. Treasury recognizes the vital role that small banks play in promoting the economic viability of communities that they serve. Treasury wanted to make sure that these financial institutions stay viable, and they use the Minority Bank Deposit Program, which is the largest and oldest of the programs to feed into the Treasury Bank Mentorship Protege Program.

He said that the objective of the program is to recruit fiscal agents or large financial institutions do work on Treasury's behalf, and they want to make sure that those banks work with smaller banks to share the knowledge that they have so that they could take the information and be able to participate in some of the financial agreements.

Mr. Smith said that they are agreements that gives Treasury use the authority to act on Treasury's behalf. The banks do a lot of Treasury's collecting, disbursement, lock boxes and similar activities. The objective of the program is to make sure that these Minority Banks participate in Treasury operations.

He described the Treasury Bank Mentor Protege Program vision, mission, and goals. Treasury is looking for a diverse pool of financial institutions that have the ability, skills and knowledge to provide services on behalf of Treasury. They understand that each of these Minority Banks is different. They have differences, and they all have needs. The goal of the Treasury Bank Mentor Protege Program is for larger banks to look at Minority Banks and to ask how they can serve them. He described that the Fiscal Service matches Minority Banks, based on their profiles. The Minority Banks have to re-certify every year that they are 50 percent minority-owned. He said that about ten years ago, they started seeing the banks either closing or being acquired by other banks, but in the last couple of years they have seen growth in the program. They currently have 73 banks that participate in the program.

An Advisory Committee member said that he had spent time learning about the US Treasury Protege Program, during the more formative stages, and the program has evolved over time. He asked what the differences are between the separate programs of Treasury and Project REACh. Mr. Moss said that Project REACh shows the value of the OCC's charter. The Advisory Committee member said that the Advisory Committee meetings are helpful for the members to hear it about what is going on in both of the programs. He said that if there is a way for more continuity with communications that it would be helpful. He said he is not involved in the Treasury's Protege Program, but he has heard great things about it. He asked whether there are success stories or examples that can be used by participating minority owned institutions. An Advisory Committee member asked how a Minority Bank can become one of the financial institutions in the mentoring program.

Agreements are entered between Minority Deposit Institutions that have needs and the mentor banks that are able to provide services. Treasury monitors the programs, but the agreements are between the banks.

Mr. Smith described the type of assistance provided by the mentor. He said that the relationship between the mentor and the protege is unique because the MDIs are unique, and what they need is unique as well. He described some of the arrangements that have been entered into between the MDIs and their mentor banks. An Advisory Committee member noted that a number of the services are not services provided by small community banks. She said that her bank has 25 employees, and they are all committed to performing core banking activities. The bank would have to hire a person to participate in the program and the bank would have to provide the new services going forward. She said that there is an analysis of whether the product or service is needed and the cost benefit analysis.

The Advisory Committee members discussed whether there is more opportunity for government programs to deposit funds in Minority Banks.

Mr. Smith said that his slide presentation has a list of the current mentor relationships and the products and services that are offered as a result of the relationships. An Advisory Committee member said that it would be helpful to have a more detailed description about each of the programs, and to provide contacts at those bigger banks with whom the Advisory Committee members could correspond if they felt that it would be something that they could take on. She asked whether they should work through Treasury who would put the banks in touch with the mentors if the product or service is something that the bank felt that it would manageable.

Mr. Smith said that it depends on the program. An Advisory Committee member said that his bank is not part of the Treasury mentor program, but they have a similar program, and they make a number of equity investments in MDIs. Mr. Smith described several success stories from the mentor program.

Mr. Smith said that the mentor banks not only help MDIs get contracts with the government, but they help the MDI grow their business. That is the purpose of the program. An Advisory Committee member asked whether there is something that their bank can partner with a large bank to go in and subcontract a certain service and participate in some of the programs. Mr. Smith said there is. He gave an example of a service that was supported by a protege bank as a subcontractor. The MDI is running a call center for the mentor bank. An Advisory Committee member asked whether the banking regulators support that kind arrangement.

An Advisory Committee member said that there are a large number of potential partnerships that are available to MDIs saying they want to partner. He said that there is a shortage of successful programs that deliver fee income, deposits or participations to the bank. He said that putting the parties together is great if they can point to programs that are going to either have a direct impact on deposits in the bank or a direct fee income in the bank. That is what MDIs look for. He asked whether there are any incentives for the mentor bank to participate. An Advisory Committee suggested CRA credit and reputational value.

An Advisory Committee member said that they would like to point to some of the successes and some of the pitfalls they ran into, some of the challenges they face. He said that having that conversation could show that they moved the needle a little bit, or they moved the needle significantly. He said that it would be useful to track the MDIAC successes. He said that this Advisory Committee was probably one of the first ones to be established and, through Project REACh and the collaboration initiative, some of the same MDIs can show successes.

The underlying goal is, are the banks being preserved and promoted so that they are still sustainable in their respective markets and, and other markets that they are planning to move into. It is not about who gets the credit, but it is really, are communities benefiting from some of the work that the banks are doing.

An Advisory Committee member said that the ATM network is an example. It is something that was great for the bank to tell its customers about, but it did not bring more customers to the bank. He said that they heard for so long from customers that if they had more access to ATMs, they would make the choice to have more of a banking relationship with the bank. That did not necessarily translate into the reality of more customer acquisition, because branding and marketing and all of those other components play a big role in terms of the scale. In fact, what the Advisory Committee member saw was somewhat of the opposite. Hundreds of thousands of dollars of non-interest income were lost because now customers were not paying foreign ATM charges. He said that their management team and board, reconciled the loss by deciding that they did the right thing because ultimately the bank delivers a better value proposition to the customers that bank with them. But the thing that they continue to focus on next is how do they offset that loss of income, particularly during a time where the bank is seeing interest expenses rising within the bank. That margin becomes ever more important to focus on.

An Advisory Committee member said that if the CRA credit that is received as a result of investing in MDIs could be quantified, it would encourage more deposits and investments.

Mr. King thanked Mr. Smith for his presentation.

Member Roundtable

Mr. King introduced the member roundtable portion of the meeting agenda. He said that it is an opportunity for the committee members to share any thoughts, ideas, comments, from what the members have discussed to this point in the meeting, or anything that they had on top of mind as well. He said that he had two items that he wanted to bring up to get feedback from the members. He said the first item is whether the MDIAC members are interested in meeting with the MSAAC members to find out whether are interests in common or whether there would be interest in collaborating on projects.

Mr. King said that he attended the MSAAC meeting earlier in April where the idea was discussed and there was excitement in the room about potentially partnering with MDIs and meeting with the MDIAC to have a joint discussion. He said the purpose would be to communicate and share stories to see if there are any synergies.

He said the second thing that he wanted to discuss is that the terms of the members of the members are two years and he would like to ask each member to share their perspective of what they want to achieve in the two years. He said that as a group they could start to define what success looks like or what the Advisory Committee members want to get of discussions going forward.

An Advisory Committee member said that there are a lot of good things happening right now, but it is segmented. He suggested that the MDIAC members could collect the activities for everyone to see. He said that MDIs should not be looking for deposits now, there are opportunities.

The Advisory Committee member said that it should be easy to collect information. Some of the members are a little bit more ahead than others in certain areas. The Advisory Committee members can learn from each other. He said that he has heard that the large banks want to do more in certain areas. The matchmaking piece is what the members need to figure out. He said that in the past there was an inventory of what MDIs and large banks are looking for.

Mr. Moss described the MDI Collaboration Initiative and described the meetings the OCC held in different locations. He said that a similar meeting is planned for the fall. He said that several staff persons are working on the program, including a Deputy Comptroller in Large Bank Supervision. He said that the MDIs have a way to convene and have a voice. An Advisory Member said that the greatest success is usually at the highest levels at the large banks.

Mr. Moss said that there were some very beneficial meetings and informative meetings before the pandemic. The OCC is starting to pick those things back up. An Advisory Committee member suggested that the MDIAC members need to put together a two-to three-year plan and prioritize what it can do because the large banks want to know specifically how they can help.

An Advisory Committee member said that until the MDIAC members know what their priorities are, they are not going to be able to articulate them for large banks. He said that a two-year timeframe sounds right, given the economic environment and some of the changes the members will have to navigate through. He said that the members could consider having a score card that describes what the success looks like and the members can continue to monitor their contribution against that scorecard.

Mr. Moss asked the members which other agencies they would like to see invited to meetings to provide more information about their programs. He suggested CDFI and other Treasury programs.

An Advisory Committee member said that her experience was that once the MDIs reached out to large and regional banks with ideas for working together, the majority did not follow up. She said that she thought that it is a lot of effort for a bank to reach out to individual minority banks. She suggested that MDIs approach them collectively, for example if 25 MDIs made the approach, it would be a more material impact and efficient for the large banks.

She said that working collectively, there is also a benefit for the MDIs. Different banks here have different bandwidths, she said that no one at her bank has the bandwidth to try to start pursuing different kind of opportunities. She suggested that MDIs work together collaboratively as a group to approach players and create an opportunity for them that that is more material for them.

Mr. Moss said that a number of the things that the members are talking about are part of what has been discussed with the other regulatory agencies, about how the Interagency MDI conference could be structured to present topics. He said that agencies and programs that the members may not have been aware of will have an opportunity to connect with MDIs. An Advisory Committee member said that she does not think that MDIs who are not represented on the MDIAC hear about some of the opportunities. She suggested that as the MDIAC has successes, the members can get other MDIs involved.

An Advisory Committee member suggested the members could meet informally to talk about collaborations. Mr. King said that awareness among the MDIs not on the Advisory Committee is important. He also said that examiners are not privy to the information about MDIs.

He said that he plans to communicate with them and let them know they should be a part of the conversation, or they could call in to listen. He mentioned the map that is part of Mr. Knott's presentation. He suggested that the OCC could have a demographic overview of the different areas where MDIs are located. He suggested that having a better understanding of the markets the MDIs serve will foster great conversations within our group, but also may help foster discussions with the MDI sector broadly.

An Advisory Committee member said that having a better understanding of the markets would be good. He said for example he belongs to the Community Development Banker's Association, and during discussions they learn about the needs of Native American tribes and the needs of the southern states in the rural communities. When he describes New York, the needs are very different. The opportunity to create a more level understanding of each of the different markets, maybe by regional area that MDIs are serving and what those challenges may be would create some important organic discussions and partnerships.

An Advisory Committee member said that in earlier discussions the topic of how best to communicate and get the right engagement had come up. He said that emails are sent around but bank staff do not know where to go with something. He said that the bank leans on partners like the National Bankers Association, American Bankers Association. An Advisory Committee member said that perhaps the MDIAC or OCC staff could organize a conference for the 53 OCC-supervised MDIs to let them know about the opportunities and to talk about meeting the challenges they face.

Mr. Moss said that is something that came up during one of the planning calls for the Interagency MDI conference that is scheduled for November 15th and 16th in Dallas, Texas. He said that as regulators, the agencies have to very careful when it comes to bringing in other parties and because the agency typically wants to ensure that there are relationships among the banks, but there has been a lot of discussion about creating opportunities for other parts of commerce to connect with the MDI segment. The NBA and other trade associations create opportunities for forums for MDIs and the OCC's are more regulatory. Several Advisory Committee members noted that a list of MDIs is published, but that they have not received inquiries as a result of being on that list.

An Advisory Committee member said that the industry needs deposits for liquidity now. He said that some of the larger institutions that his bank has been partnering with are depositing a hundred million at a time. His bank has picked up five to 10 million at a time and it is those kinds of numbers that make sense. He said that MDIs need to educate investors because some of the corporate partners do not understand that they can get FDIC insurance through reciprocal deposits.

An Advisory Committee member said that it is about education and visibility. She said that corporate investors do not know enough about MDIs, and she said that MDIs have to put a face out there, a name with it and try to look for other sources of funding. An Advisory Committee member said that his bank wants to understand what the needs are overall, and then determine what that investment will be. The bank's assessment is very individual. It does not want to have a concentration from anybody. He said that at one point the bank was offered a 50-million-dollar deposit and he said that he does not sleep well at night when one person has a 50- million- dollar deposit at the bank. But there are organizations that would place a five- or ten-million-dollar deposit. Those kinds of numbers move the needle so that the bank can plan, and the deposit just sits there and earns a spread on treasuries or however the bank decides to price the deposit over time.

An Advisory Committee member said that the impact of saying this is the reason that MDIs uniquely serve communities. He said that his bank recently started doing a social impact report that shows the community activities. For example, the bank established a community development corporation. The bank builds affordable homes, it has cut through all the red tape in the local area, and they build homes for no profit to the bank. The bank runs the entity as a non-profit. They buy lots and build homes and they sell them with down payment assistance grants through other larger organizations, for example federal programs or a Federal Home Loan Bank, or the bank itself. The bank is setting up a nonprofit foundation facilitate the program. He said there are success stories MDIs need to talk about, because all MDIs can benefit from that.

Mr. King said that the discussion brings it back to one of the initial points to discuss. That is whether there is an appetite to engage with the mutual committee as well to explore possibilities.

An Advisory Committee member said that he would like the MDIAC agendas to provide more ways for the members to organically engage with each other as well as sharing some of the things that they are experiencing on a day-to-day basis. An Advisory Committee member said that she is interested how small community bank MDIs have managed to kind of integrate the Treasury Mentor Protégé Program in the bank's program and hear their success stories.

Mr. Moss said that the discussion about partnerships touched on why the OCC started the MDI Collaboration Initiative back in 2016. It was not just focused on CRA as the sole reason for its development, but also SDC Toney Bland wanted to make sure that MDIs were able to connect and create relationships and partnerships with larger institutions. That was the impetus for what the agency was trying to accomplish. He said that he thinks the OCC is getting there and the agency is figuring out how to level set and create the right structure and get the right people.

Public Comments

Mr. King asked whether there was anyone member of the public online or in the room that wished to make a comment. Sabrina Bergen from the ABA thanked the MDIAC and the OCC. She said that an Advisory Committee member had mentioned that the ABA is hosting its first collaboration event. She said that the OCC attended that event, and it was great to have the agencies there. ABA can help spread the word about what MDIs and large bank peers are doing and how they can lend and partner with them. The partnership summit is a resource at no cost to attend.

Tamer El-Rayess commented that he appreciated that the MDIs shared information about their mission of service to community and the importance of the transfer of wealth.

An Advisory Committee member said that for the purposes the discussion one of the things he wanted to reiterate is that the MDIAC continue to think about how to encourage CDFI loan funds to place deposit banking relationships with CDFIs and MDIs. Many MDIs are CDFIs and that is the mission and the scope for the loan funds as well as the CDFI banks, the MDIs, are all centered on economic development and growth. He said that it makes sense that they create an ecosystem and encourage those loan funds to have their banking relationships with like-minded entities that can continue to do good in the communities.

Closing Comments and Adjournment

Mr. King thanked the Advisory Committee members and the members of the public. He said the discussion has been very robust and dynamic, and he looks forward to continuing the dialogue. The next MDIAC meeting is on September 12th and the MDI collaboration meeting will take place around the same time. For 2024, the tentative meeting dates are April 16th and September 24th. Mr. Moss reminded the MDIAC that the Interagency MDI/CDFI Conference is scheduled for November 15th and 16th in Dallas, Texas.

Mr. King adjourned the meeting.