September 21, 2021 Minority Depository Institution Advisory Committee Minutes

The Minority Depository Institution Advisory Committee (MDIAC) convened its fourth virtual meeting at 10:00 AM Eastern Daylight Time on September 21, 2021. The meeting was open to the public, as required under Public Law 92-463. The Office of the Comptroller of the Currency (OCC) management and staff attended largely from OCC Headquarters in Washington, DC. All others attended virtually from around the United States. See ***Addendum*** for a list of participants.

Designated Federal Officer (DFO) Beverly Cole welcomed all in attendance. After Acting Comptroller of the Currency (ACoC) Michael Hsu provides brief comments, the meeting will move to the MDIAC roundtable.

ACoC Hsu thanked everyone for joining and indicated he will discuss four of his priorities and connect them to the work of the MDIAC. The four priorities focus on safeguarding trust in the banking system. If action is not taken, with some prioritization, trust in the banking system can erode.

The first priority is complacency - specifically in the large bank space but he is hearing some concerns in mid-size banks and community banks spaces with regards to where we are in the cycle. ACoC Hsu indicated he would not discuss complacency, as it the bread and butter of what the MDIAC is working on. The second priority is digitalization, technology, fintech, change, and regulatory parameters. The banking system is changing. Change outside the system is very rapid, and we must keep up. The third priority is climate change. ACoC Hsu's used an analogy that climate change is like starting to brush your teeth after you have a cavity. We must start now by identifying, measuring, and monitoring the risks due to climate change. The focus is on large banks and tailoring those practices as appropriate to institutions of varying sizes. We understand the trickle-down effect and will endeavor not to let that happen. ACoC Hsu's last priority is reducing inequality, as he is worried about the persistence of inequality and the role the banking system plays in perpetuating it. Statistics reflect lower income household wealth has fallen since 1983, median income household wealth has been stagnant, and upper income has almost tripled. The rich get richer and the poor are stuck. It is expensive to be poor and some of the expense is attributable to the banking system.

There is not a one-size-fits-all solution. The Roundtable for Economic Access and Change (Project REACh) has identified how banks can help. ACoC Hsu recognized the help provided by banks on the call and acknowledged more is needed. He would like to hear more from the members about revitalizing Minority Depository Institutions (MDIs) - one of the four pillars of expanding financial inclusion. ACoC Hsu indicated he felt the pandemic, George Floyd, and the related protests have prompted a lot of interest in financial inclusion and it feels different than past efforts. We have an opportunity. Jelena McWilliams, at the FDIC, recently talked about a new fund that focuses on getting more dollars, investments, and improvements in the MDI space, recognizing that MDI's have a huge role to play in supporting and empowering communities of color.

MDIAC Members – Roundtable Discussion

DFO Cole asked MDIAC members to share their thoughts, questions, and comments.

Thomas Ogaard, President and CEO, Native American Bank, NA, - Denver, CO
Mr. Ogaard does not think MDIs are complacent as there is such a need every day. Striving to meet that need is first and foremost. We have these conversations on an ongoing basis because what we do is nationwide and is where the need is. We see it everywhere from healthcare to housing. We have a mission, based in Indian country, which are some of the poorest areas of the country. About three years ago, we started investing in technology. The digitization is important. We can't be everywhere so technology must be available. Some of these areas that we operate in still don’t have electricity or even running water, but it seems everybody has a phone. Having availability through our mobile phone and being able to open new accounts on a remote basis to our website or on our mobile phone are important to us.

We're not looking for just a vendor but we're looking for a relationship. In the last 18 months, MDI and Community Development Financial Institutions (CDFI) have come to the surface in terms of everybody's understanding. I get calls from a lot of different places wanting to help and sometimes that help is taken advantage of. But it is an opportunity to impart on other people that there is an opportunity for them through us as MDIs to help with what we're doing with the communities we serve. As an MDI, we have had our tenets of what we follow that include diversity and inclusivity. We get asked if I can bank with you - because I'm not native. We will bank anybody who wants to support the mission. It is about storytelling and widening the circle. As a collective group, we can influence where we're taking this and where we're going.

Joe Quiroga - President, Texas National Bank, Mercedes, TX
Mr. Quiroga has been thinking about technology and talking to bankers, and there is starting to be a fork in the road when it comes to the payment side. There used to be benefits to being a bank but now all the non-bank players can move money around through banks (rails) and they are way ahead of banks. It should not take 25 minutes, three phone calls, and a $25 fee to move money from bank to bank. Mr. Quiroga asked if something could be done to give some sort of competitive advantage. We need to be the source of payments as an industry. We need to come together to solve that issue.

ACoC Hsu explained that the Fed has an effort underway to upgrade the U.S. payment systems as our system is antiquated compared to peers internationally. It is intended to solve some of the concerns Mr. Quiroga mentioned. Until then, ACoC Hsu is worried about the lack of a level playing field between banks and payments firms. The concept surfaces around responsible innovation, third parties, bank fintech partnerships, and rent a charter. There is a team working to assess the problems holistically and find solutions. ACoC Hsu reiterated the issue is on his radar and shares Mr. Quiroga’s concerns.

Dr. Jody Lee, Chairman of the Board, Southwestern National Bank, Houston, TX
Dr. Lee noted she is at bankers' convention in Austin, TX and this issue has been the theme of the convention - inequality between banks and non-banks, the way they're regulated, and their overhead. This has been an issue and we see that it will continue. We're trying to find a solution but it's a challenge.

ACoC Hsu noted that while the banking industry tends to get painted with a broad brush, community banks come in different sizes and profiles, which is one of their strengths. There is a sense that the larger banking players have receded from certain markets, which created opportunities for fintechs. While ACoC Hsu indicated that it is not entirely as he described, sometimes the banking industry views fintechs as intruding on bank turf; however, sometimes the turf had been abandoned. For MDIs, it is the opposite. Customers rely on MDIs to have that relationship to get those services, which serves as a model for other banks. Community banks out hustled large banks in making Paycheck Protection Program (PPP) loans. There are a lot of great stories that large banks could learn from community banks. ACoC Hsu will take the theme on technology and payments back with him.

Brian Argrett - President and CEO, City First Bank of D.C., National Association, Washington, DC
Mr. Argrett noted that it is a real honor to be here, appreciates OCC priorities, and agrees with complacency comments. We are dealing with historical injustices and problems that require our full attention. It is about trying to see those true partners, true opportunities that allow us to build something or to extend something. I applaud many of the efforts, the partnerships that many MDIs are able do now and Project REACh. We have been focused on opportunities presented and making sure they're not just taking advantage of the space and whatever one might derive from it. The issues that we are challenged with as a society require a lot of work.

The environment in which we work right now is focused on housing. As a community, even as MDIs and CDFIs, we're still operating within a community banking space. There are some distinctions and we are always operating in these concentric circles. One of the strongest is the community banking space and there is some real headwinds that we have to put on the table or have in our discussion, when we think about strengthening MDIs, not just in their particular focus but as institutions. The good news is capital is more abundant than it has ever been. The second one is some of the challenges with extra cash in the system, which can impact ratios and other things on our balance sheets.

While our communities are starved of capital and sometimes opportunity, loan demand within the community banking space, and sometimes even within our institutions as we grow, can be a challenge finding the loans - structuring a book can be a challenge. However, because we have a different starting point, there is a lot of room and many of us have been able to achieve nice loan growth in this marketplace with good credit quality. There is a surge in non-bank lending in the residential market. That is not a bank market any longer – we are just in a commercial space and that is a huge challenge for MDIs, CDFIs, and small community banks, as the larger banks warehouse loans supporting the producers. That is not necessarily an option for the MDIs and some CDFIs.

We have the ongoing issue of how we serve our communities physically. The branch issue goes counter to the economics and the banking model where margins are tremendously pressured and banking preferences are different. There are changes to our model that are difficult that we must think through including the technology piece. The dual problem of the housing markets being very strong creates the crisis of affordability. Strong on price, poor on supply, and a crisis of affordability. Theoretically, this is an opportunity for us to try and bridge that gap but it is a suicidal crisis in our communities.

ACoC Hsu appreciated the comments. These windows of opportunities open and close. There will be some temporary bumps and surges now and again, but it sets relationships through different points of the cycle that will be most helpful overtime and that is something that we want to be able to promote and to encourage. There does seem to be a focus on it. Within the MDI workstream, the challenge is more than just money. And that is really, really critical.

Jamie Bartholomew Aller, General Counsel, The National Bank of Malvern, Malvern, PA
Technology is such a critical thing for us and how not being able to employ it or be on the forefront of it. Right in the beginning of the PPP loans, small community banks had a great advantage. The bigger banks were not helping their non-commercial loan customers. They were only helping loans of a certain size. It was terrific. We did - but as a small bank, we didn't have software teams developing programs. There weren't vendors that were willing to - it was just all so new. I did all our loan documents manually. People are emailing us the documents through a (support) portal. It was all totally manual. We were there to help. We did $1,000 PPP loans for the little guys to help them and it was labor intensive. The big banks rolled out all of their software programs and they have been cranking these things out. We're still chugging away, doing everything manually and we were very happy. We are here, we are helping our customers, there are so many of our customers that might not even be open today if we had not been able to give them those PPP loans. We're plugging away at 10 or 15 PPP loans a day, and we're serving communities where people aren't necessarily great on computers.

We go to their house and help them fill out the application. We handheld our people because a lot of them need that help. Meanwhile, the bigger banks are cranking out these things by the thousands every day and I feel like even in that context, we were happy to have been able to help our customers. We got some customers out of it that were unhappy when they were sort of boxed out of the bigger banks. Those that were boxed out were usually the ones that we are not going to be making as much money on, which is fine. Those are the people we are here to help. Doing everything manually, dealing with customers that need a lot more handholding and not having the benefit of any kind of technology to help us through that process, especially in round two, relative to the big banks….I cannot imagine the disparity. We also had trouble, as a woman owned bank, getting access to either results through a window when women in my area were able to get on the portal and send in applications when other banks could not and we did struggle with that a little bit. We did get access, but it was a little challenge. I don't know what the answer is, but I feel like at the very beginning when we were there, doing everything manually, and the bigger banks had not gotten their act together yet, it was great.

Ultimately, it was a humungous profit-maker and we are still struggling trying to do everything manually. We spent four hours sitting down with a customer, helping them pull together their payroll reports and making sure they have everything they need. I feel like we were at a disadvantage, but that is why we are here and that is who we are. When people cannot figure out the online portals, they come to a small community bank where they can spend five hours walking them through it. And we are happy to do that but there is such disparity.

ACoC Hsu responded there's two parts to the problem. One is the actual technology itself and the other one is the people. The talent pool gravitates towards the big companies. To the extent there is this influx of dollars, there's interest in investing in MDIs. It is worth thinking through what the biggest return on capital is - technology may have longer term payoffs. We all must upgrade our technology at some point and it is very expensive to do at one time. If you amortize, one appreciates over time, investment makes a lot of sense. It is a matter of marshalling those resources and getting the right technology. Efforts are underway to facilitate bringing core financial service providers to tailor some resources toward community banks, CDFIs and MDIs and become a part of the solution.

DFO Cole noted that since we started the MDI collaboration, our program has always been about the relationship as opposed to the transaction. Because a transaction is one and done, but a relationship that is good for all parties lasts hopefully forever. The MDIAC and the OCC's Mutual Savings Association Advisory Committee (MSAAC) were both independently speaking about collaboration. Charlotte Bahin who is in the room today authored OCC's Collaboration Paper. The paper provided some clarity on acceptable collaborations. Our focus has always been on collaboration and relationships. Project REACh allowed for significant growth.

Laurie Vignaud, Independent Director, Unity National Bank of Houston, Houston, TX
Ms.Vignaud stated she is excited to meet ACoC Hsu and be a part of this conversation. She acknowledged Project REACh, Andrew Moss, Bill Haas, Beverly Cole and so many others who have convened all of us together, to have this conversation. There has been progress. As a very small MDI compared to some of my peers, I have already started off behind the curve and I sincerely appreciate your focus areas. When we do talk about the disparity gap, it is real even for a bank of my size, trying to keep up, trying to take advantage of technology, trying to provide the services with the PPP loans. PPP was an indicator of the need of small business loans in communities that we have been serving for many, many years. Unity Bank has been around for nearly 58 years and these are the customers that we see day in and day out. It was very manual, and we did quite well.

Project REACh has afforded us an opportunity to be in front of the core processors and large institutions that have been able to funnel a lot of capital and resources to our institutions. There's still a little bit of a gap. And, Beverly, I know that you're working tirelessly on this. The sensitivity level and the need and the support that we're getting from the national office is overwhelming and very obvious. But there's still a little gap as it relates to how the local district are engaging with the MDIs on the ground. I'll speak for myself and many of the MDIs that I have been in contact with, we're trying to implement digital platforms, we're trying to grow our bank, we're trying to deploy capital and we're trying to keep up.

When I came on board, we were a $100 million bank and now we're almost $230 and poised to grow. Sometimes we feel at odds with regulators and uncomfortable trying to share what we're going through in the hope that we can have a little more time and a little more sensitivity to help us catch up with the rest of my peers and the rest of the world. This is a wonderful platform. I love my district representatives and we have known each other for many years. I understand the role that they play but if there is an opportunity for us to have them a little more engaged with you, Beverly, in understanding that for small MDIs who are finally getting our sea legs and able to do more and to be more engaged. Help me do this and help understand what my challenges are so that we could do a better job and you can see that we are still a safe and sound institution just trying to serve a community.

ACoC Hsu and DFO Cole thanked Ms. Vingaud for sharing. DFO Cole shared that we are trying to get the word out to the Districts that supervise community banks, examiners-in-charge, and portfolio managers to help connect the dots between what we're doing at the national level and what they might see in the banks. For instance, some of the long participations coming from the larger institutions that might look like out of territory lending.

Beverly Meek, First Vice President, Community Reinvestment Act Director, Flagstar Bank, FSB, Troy MI Ms. Meek wanted to expound on comments about racial equity noting they are hearing a lot about it in their community and from our community groups. As we're moving more towards digitalization, many of our minority community do not have the digital device or the broadband and technology to take advantage of the digitalization. We're also hearing about racial equity as it relates to small businesses.

PPP was great but there are issues with smaller banks, minority small businesses, and those businesses that are mom and pops and all the other income communities having access to capital and participating in this program. PPP was a program that was simple, but it didn't have a lot of guidelines. It doesn't really help our mom and pop businesses. There's still issues there, and we just need to do more where we are trying to figure out how we can identify these businesses and also find a product or create a product that will work.

To expound on the racial equality is important. I'm hearing more and more about it and we're really trying to figure out how to meet the needs of our primarily minority community and clients with a focus on the digital part.

ACoC Hsu thanked Ms. Meek for sharing. He stated that with Project REACh, we have a lot of activities regarding how microbusinesses and sole proprietorships might be helped as those businesses have heavily relied on their consumer credit to keep their operations in place. Project REACh is addressing business credit invisibles and helping them to establish a true business credit profile so that they can expand and get the type of capital that they need under a true, either retail or commercial trade line. He will follow up with Ms. Meek to connect her with those types of subgroups within Project REACh.

Another MDIAC member noted how instrumental Project REACh has been to his bank.

DFO Cole and ACoC Hsu and others thanked the speaker. Two others noted their appreciation for Bill Haas and Andrew Moss.

John J. Hou, CEO and President, Asian Pacific National Bank, San Gabriel, CA
Mr. Hou noted he will discuss three topics. First, how the San Gabriel is doing with COVID. Second, how we are dealing with the current situation. And third, the new challenges.

COVID Los Angeles County is a bit better than other parts of the country. Unemployment is 9.7% down from 20.7% in May 2020. People are still struggling but there is the sense that the worse is over. We are taking new precautions with COVID. We have a mask policy that our security guards will help provide customers with a mask if they don't have one. We adjusted our banking hours by temporarily closing on Saturdays. We are just a small community bank so we must make sure our staff remain healthy since one case would be disruptive to the bank. Our business model is more personalized service. COVID has limited contact with customers. The local Assistant Deputy Comptrollers (ADCs) understand our banks and have provided guidance. We are strengthening our business model while adjusting to the new normal.

DFO Cole asked if there was anyone that has not had a chance to speak or if there were questions for ACoC Hsu, Bill Haas, Andrew Moss, Ernie Knott, or Charlotte Bahin.

Kelly Skalicky, President and CEO, Stearns Bank, NA, -St. Cloud, MN
Ms. Skalicky reinforced the importance of MDI collaboration, particularly among smaller community banks. Stearns Bank is about $2.4 billion. Collaboration with MDIs and taking the pledge with Project REACh has been extremely beneficial to Stearns. There is so much more collaboration that can be done and the more that the Comptroller, the OCC, and regulators can encourage, the better for all customers.

This MDI forum has been the first real framework and Stearns is now working with 8-10 MDIs. Thank you to Bill Haas and the whole program. The newsletter is very inspiring, encouraging and reinforcing.

ACoC Hsu noted there's more polarization now than in any time yet there is collaboration in a lot of different places (MDIs, community banks, and regulatory agencies).

DFO Cole mentioned that the first collaboration meeting was done in response to MDIAC members saying the larger institutions were not at the table and we provided a forum to help that happen. Bill Haas brought the mid-sized institutions that we supervise to the table. At first, MDI members asked why we brought their enemies to the room. This is what collaboration and developing relationship looks like. You need to be in the room, you need to talk to each other, you need to get to know each other because you develop relationships and do good business with people you know. You do transactions with people those you do not know. Our goal was the relationship. DFO Cole thanked all parties for being actively engaged and willing to be vulnerable, actively participate and make this a success because it really could not have been a success without everyone being at the table.

Natalie Abatemarco, Managing Director, Citi Community Investing and Development, New York, NY
Ms. Abatemarco acknowledged ACoC Hsu and indicated it is music to the Committee's ears to hear you say that you are continuing to focus on racial equity because it is very important to the large institutions, the community banks and the MDIs that we're working with. I think it should be said here as we all collaborate, that not every bank is the same. We all do not have the same business model. We all do not have the same approach and that was very good lesson. In the beginning, there was a bit of a sensitivity gap, and now we are learning how to collaborate and how to work together. We do not always need to have a senior banker or an executive to come in. We could do something different especially around technology. Ms. Abatemarco asked for perspective on the $500 million invested in MDIs. What do you think is next? How do we engage? How do we be as effective as we have been?

ACoC Hsu responded that it's really building on this conversation we are having today. It is a long-running conversation that the group has been working a long time. Initially, there were various capital problems. If you don't have capital, you can't grow. If you can't grow, a lot of other things are just hard to deal with. But now capital seems - if not plentiful, at least there are avenues now to source capital. It sounds like technology is a real issue - maybe that is the next mountain of issues to tackle efficiently and there may be a way for OCC to help. There are different needs for different MDIs and we want to make sure there's not a one-size-fits-all. Thematically, one of ACoC Hsu's takeaways is that the unlevel playing field is impacting MDIs as much as anybody else and perhaps even more so.

Bill Haas commended Ms. Abatemarco and Citi Bank for everything they have done over the years and it all started with the ATM project and has grown to so many other different things.

Unity Bank is something that we want to draw out because we think there's more opportunities there. We would love to see other larger banks try to emulate the incredible contribution of Citi sending Gina to Unity for a year. It's not free and can be the gamechanger. We think about this a lot through the Technical Assistance Committee and as Ernie will tell you later, capital is a great story. Capital is up over 15% in the last year for MDIs. MDIs have an opportunity to be thinking about things that might not have been on the table in the past in terms of new products, services, or technology.

It was stated that a focus on technical assistance is what needs to come next. There are people out there who are experts at implementing new products, those that are expert at identifying new technologies and making them from a dream to reality with the real impact going forward is connecting the right people together to help share that expertise, to share the lessons learned overtime and OCC provides opportunities for one on one engagements to help MDIs find the path forward. Many MDIs are focused on the needs to today and there is recognition that the challenges are many. But there also needs to be a focus on what is the future for the industry in two to five years given the fast pace the industry is evolving and the entrance of new competitors. It is critical for everyone to be thinking long term and defining what the mission is, what those competitive niches are and what are the things that will make you relevant. And technology is huge there. The more that we can focus on the technical assistance piece of all of these and bring together the resources is the future and what needs to come next.

Ms. Vignaud noted that as the protégé of the mentor-protégé relationship with Citi, she echoed her appreciation to Ms. Abatemarco, to Harold Butler, all the way up the chain, to Jane Fraser, who has been incredibly supportive of Project REACh and in supporting MDIs in general. We have certainly benefited immensely. The ability of a small institution overtime to catch up and keep up is also a challenge given how quickly the market continues to change. Citi's providing Gina and having who has an open door with many of her resources as well as people that can provide insight, helped move the needle a little bit faster which is critical. Citi has been a relationship beyond all others for Unity National Bank and we're incredibly grateful and we see how this can benefit others. Ms. Vignaud addressed ACoC Hsu and shared the CRA guidelines and qualifications can be beneficial to help facilitate or to encourage the larger banks to continue providing this kind of support.

We are in a very special moment in time. The role the OCC plays is incredibly important. We know how supportive you are of us and I think that would probably be very helpful for institutions like Citi and others who want to support MDIs to have an incentive for them to continue doing so in the future. Unity Bank is grateful for the benefit it gains from the relationship with Citi.

Mr. Argrett stated that it is about relationships, not transactions. It is really the facilitation of Project REACh and the longstanding roundtables that have allowed for the support of the MDIs and CDFIs. He thanked the agency for standing that up, supporting it, expanding it, and pushing it forward, trying to be innovative and thoughtful about how we do more. He reaffirmed that (1) MDIs are unique with different business models and structures, (2) Technology issues are universal as it's everything from fintech to core to what should I addressed regarding business models, strategy, etc. Mr. Argrett stated core was common topic for all and whether thought had been given to how to link them to partnerships directly with the MDIs in a way that is transformational for those relationships? He further shared that small institutions have a challenge dealing with a large institution that may or may not view the smaller institution as a permanent or long-term partnership. Mr. Argrett shared this could be and area of focus.

Mr. Haas responded that there is a working group with a number of banks that have done an outstanding job of identifying the challenges in the MDI space. Thus far a number of monthly meetings between a representative group of OCC MDIs and the three largest core service providers have occurred in the past few months. Discussions have centered on opportunities and where those partnerships could deepen. We made some progress. There's much more of a realization and appreciation by executives of the cores in terms of some of the challenges in the MDI space. At least one of the cores is in process of standing up an MDI advisory committee of their own to maintain dialogue with MDIs that they provide services for.

There has been more appreciation around being transparent with MDIs about the different products and services the cores have available, not making you try to figure out your own solutions, and trying to level the playing field a little bit in terms of giving MDIs faster access to emerging technologies. We have a mechanism in place to continue the dialogue on a periodic basis and continue to provide an opportunity for MDIs to engage with going forward. There's certainly an opportunity for your team to become involved in the conversations as we move forward.

Mr. Argrett commended the OCC on that effort and confirmed willingness to be helpful with this effort.

Mr. Quiroga noted he is taking the Comptroller at his words when he said to think outside the box and think bigger and better. He asked ACoC Hsu if there any discussion about reducing or eliminating the assessment fees for services that are provided to the community.

ACoC Hsu responded that everything is on the table as it helps to sharpen our thinking. Why are we asking for this? Why are we requiring that? What can we do differently? Going through that process helps us to get to the right place and right answer. We cannot get there unless someone asks the question and puts it on the table. We are rethinking things including assessments and the processes/controls around how those things are determined. ACoC Hsu thanked the Committee noting it has been a wonderful, very informative and inspiring meeting and there are a lot of opportunities ahead of us.

DFO Cole and Bill Haas, upon returning from break, introduced the next speaker.

Sara Reid, Executive Director of the MinBanc Foundation
MinBanc Foundation, founded in 1999, provides grants up to $5,000 per MDI bank per year to cover training opportunities for bank staff. Grants have been provided for programs like ABA Stonier School of Banking and compliance training. The individual grant recipient must be an employee of the MDI and have a title at the management level or above. The course work must be relevant to the role. On average, MinBank distributes between $25,000 and $30,000 per year and in 2020, funds provided were close to $50,000. MiniBanc hopes to triple grant funds over the next two years. The OCC determined that donations made to the foundation qualify for CRA credit. See MinBanc.org for details.

Mr. Aller explained his bank has used the grant program for many years enabling employees to attend conferences that otherwise would have been unaffordable.

DFO Cole turned the meeting over to Ernie Knott upon returning from lunch.

Ernie Knott, District Financial Analyst (DFA), Comptroller of the Currency, Northeastern District
DFA Knott's presentation focused on the state of MDIs, as of June 30, 2021.

Portfolio Demographics: OCC supervises 1,194 institutions, including service providers and federal branches. OCC supervises 52 MDIs. Industry consolidation continues. The OCC lost 21 charters in 2021 primarily from merger and acquisition activity. There has also been a sharp decline in new charters. MDIs are in 21 states and concentrated in Texas and California. Most MDIs operate from three locations or less. Five MDIs reduced their branch network since 2014. The pandemic accelerated the move to the online banking. The industry is projecting 30% fewer branches in 10 years and 40% less space in branches. Large bank branch closures may provide opportunities for community banks.

Financial Performance: Banks with one or two composite ratings represent 78% of total community banks and are stable. Capital ratings remain stable with MDIs having higher total risk-based capital ratios than the community bank peer group. Despite continued net interest margin (NIM) compression, MDI net income rose sharply in 2021 (50%) primarily due to higher fee income and reduced provisions. Asset quality ratings worsened in 2021 but 80% of banks are rated one or two. Classified assets are up a little at 14%. Loan deferrals continue to decline. MDI loan growth, net of PPP loans, was 5% with multifamily seeing the most growth. MDI loans are concentrated in commercial real estate at 58%. MDI loan losses are at historically low levels. Liquidity is strong with 98% of community banks rated one or two. Sensitivity to market risk remains satisfactory with 93% of community banks rated one or two. Management ratings are satisfactory.

Credit, operational, and strategic risk are designated as high in OCC's *Spring 2021 Semiannual Risk Perspective*. Credit risk is on the radar screen as the economy is transitioning out of the pandemic and some borrowers will be impacted. Operational risk is elevated due to the more complex operating environment and increasing cybersecurity threats. Strategic risk is focused on the bank's management of NIM compression.

Ms. Aller asked DFA Knott if the decline in national bank charters compares to other charter types.

DFA Knott responded that the trend is similar for all banks with industry consolidation between 4-5%. While assets are increasing, the number of OCC charters is declining.

DFO Cole thanked DFA Knott for his presentation.

Andrew Moss, Director for Minority Outreach, Comptroller of the Currency. Mr. Moss introduced the next speaker.

Diana Banks, Vice President, American Bankers Association
Ms. Banks discussed the Bank On initiative that the American Bankers Association (ABA) supports as a means of ABA's overall goal to better support financial inclusion initiatives within the industry. She reported ABA is very focused on these initiatives - especially in light of the pandemic, the stimulus payments, and now the child tax credit, it's very important that Americans have access to a bank account so that they can fully participate in the financial system. The concept is for institutions to offer a Certified Account that would have certain consumer friendly features and are basically no-frill checking account.

Last year, as part of ABA's push for financial inclusion, ABA members were pressed to begin offering Bank On Certified Accounts to expand access and reach for Americans not represented in the banking industry. Millions of American households, mostly households of color, are underbanked or non-banked. ABA wants to ensure they support an initiative that meets consumers needs for a simple, easy to use account that also meets the needs of the financial institution. While charity work is important, Bank On Certified Accounts have been designed to be profitable and sustainable. Bank On accounts are low-fee accounts designed to address the primary needs of underbanked households. Bank On accounts should feature checkless checking; although accounts can, but are not required to, have checks. Banks can charge a $5 monthly fee for the account if the fee is not waivable or $10 monthly if the fee is waivable.

Overdraft fees cannot be charged, the bank must provide a debit card, and the account should have a low opening deposit. These are accounts that are very accessible and designed to work for both institutions and consumers. Ms. Banks stated good penetration has not been achieved with MDI and CDFI institutions offering Bank On accounts. She asked, “Is there something the ABA could do to further incentivize institutions to offer this account?” There was not a definitive response from the MDIAC membership.

Ms. Banks informed the group that ABA had been working with the core providers make the process easier for small community banks so those institutions can offer Bank On accounts. ABA has engaged the cores to offer an off-the-shelf Bank On Certified Account structure to their customers. All of the cores should be ready to set up an institution with the Bank On Certified Account. Ms. Banks stated that if the MDIs are interested in doing this and do not get a satisfactory response from your core, ABA would like to know. ABA has been working with the cores to get them to streamline the process, make it easier for more people to obtain a bank account, and get more people within the mainstream financial institution. Ms. Banks asked if anyone had heard about Bank On and Certified Accounts. Four MDIAC members responded yes. We are making a push with our membership and banking industry overall as a measure of inclusion for institutions to offer this low-cost simple account.

Ms. Banks stated ABA gets questions from institutions about offering Bank On accounts such as are existing customers cannibalized? The Consumer Financial Protection Bureau (CFPB) and Federal Reserve out of St.Louis (I believe) are researching this aspect but thus far they have found that most customers who open a Bank On account are new customers. The product is useful for a significant portion of the population and institutions should consider offering the account. Ms. Banks shared ABA represents about 50% market share of FDIC-insured depository institutions. Bank On Certified Accounts are available at over 33,400 branches across all 50 states at 120 participating institutions, and there are local Bank On coalitions in 85 city state localities across the United States.

CFPB is working with numerous local coalitions to ensure that local, state, community, and political stakeholders are engaged with the banks. Bank On is unique as the stakeholders are aware of institutions offering Bank On accounts within a geographical footprint. These stakeholders are then instrumental in driving potential customers to institutions that have Bank On accounts. Ground level stakeholders’ awareness assists those that could best utilize these accounts in understanding its ease of use and availability.

There has been the perception that Bank On accounts are for large institutions; however, there has been substantial growth in institutions offering Bank On accounts that are less than $5 billion, which is an important marker. ABA has been actively encouraging its membership to consider offering Bank On accounts and bring as many people as possible into the mainstream financial infrastructure. ABA’s position is to expand access to products and service that already exists such as Bank On Certified Accounts. ABA is working with the core providers to make it easier on the backend for institutions to adopt certified accounts. ABA has an email address, bankon@aba.com, if people need help or technical assistance with getting their accounts set up. ABA will facilitate a smooth process.

Ms. Banks further stated that ABA had great response from the cores. The cores understand the importance of doing this from an inclusion perspective and they had been fantastic in working with ABA to make it easier for everyone. ABA would like to get a sense from institutions that are not currently offering Bank On accounts what ABA could do to encourage fuller and broader adoption of those account standards. Ms. Banks gave participants her email, dbanks@aba.com, stating she would be happy to discuss any concerns offline. ABA is trying to push Bank On as an inclusion measure that is sustainable and viable and hearing candid feedback is important.

Andrew Moss will distribute Ms. Banks' slides.

DFO Cole indicated one public comment was received and asked Laurie Vignaud to address her pubic comment.

Ms. Vignaud shared information about transitioning from LIBOR as there are many options that have presented itself as an alternative. Unity Bank has decided to utilize the AMERIBOR platform and found it to be aligned with the needs of community banks and mainstream banks. Dr. Richard Sandor was the leader creating it as an alternative to LIBOR. SOFR is one that many of the larger banks are familiar with, but AMERIBOR is also a platform that can be used and I'm happy to share information offline to anyone that might want to learn more or would like information directly from Dr. Sandor.

DFO Cole asked the Operator to open the line for public comments. With no additional public comments, the agenda moved to announcements.

Andrew Moss noted OCC is hosting the Interagency MDI and CDFI Bank Conference September 27, 2021 through September 30, 2021. It is virtual and if any MDIs have not received the registration information, they should contact Andrew. The conference is only available for the MDIs and CDFI banks that are recognized by the regulatory agencies.

Bill Haas communicated the 2022 MDI Collaboration Roundtables: Monday, April 25th in Washington, D.C.; Wednesday, May 25th in Southern California; and Thursday, June 16th in Dallas. October 19th is the next session of the National Project REACh MDI Revitalization Investment Fund subgroup. FDIC representatives will discuss the recently announced mission-driven bank fund. Members of the subgroup will be on the call but if other institutions are interested in participating, please let Bill Haas know.

On October 1st, through our Project REACh Los Angeles REACh initiative, we will launch our first in what will be a series of quarterly technical assistance sessions we call Lunch and Learn Sessions that will connect MDIs with community, midsized and larger organizations. There are two specific goals and objectives for these sessions. One is to share the technical expert knowledge and engage in roundtable discussion on specific topics. The second objective is to establish a networking community between MDI and larger organizations across a series of subject matter topics that will enable MDI executives and staff to reach out to people at other institutions, when appropriate, to ask questions or to gain specific information. For this upcoming session, we have strong participation and interest from MDIs particularly in the Los Angele area given LA REACh, but also a number of community, midsized and larger organizations as well to participate in these sessions. The topics we've identified the first year of these sessions are enterprise risk management, Bank Secrecy Act/Anti-Money Laundering, compliance, third-party vendor risk management, and cyber security and resiliency. Some great topics and sessions to share experience and knowledge going forward. This is another good initiative coming out of Project REACh in LA in particular focusing on MDIs.

Charlotte Bahin, Senior Advisor for Thrift Supervision, Comptroller of the Currency
Ms. Bahin announced that on Tuesday, September 28th, the OCC's Mutual Savings Association Advisory Committee will meet virtually. If interested, email DFO Cole or Andrew Moss. The agenda includes a presentation by DFA Knott on trends in mutuals, a roundtable on mortgage lending banking issues, and ACoC Hsu will participate in the roundtable and provide committee updates.

DFO Cole announced tentative dates for the 2022 MDIC meetings, which will likely be in Washington, DC: Tuesday, April 26th and Tuesday, September 27th. The April MDI meeting will coincide with the MDI collaboration meeting, which is Monday, April 25th. A notice will be sent to members.

DFO Cole and Bill Haas thanked everyone, and the meeting was adjourned.

September 21, 2021Minority Depository Institution Advisory Committee Minutes
Addendum of Meeting Participants

Advisory Committee Members Present

Natalie Abatemarco, Managing Director, Citi Community Investing and Development, New York, NY; **Jamie Bartholomew Aller,** General Counsel, The National Bank of Malvern, Malvern, PA; **Brian Argrett,** President and Chief Executive Officer, City First Bank of D.C., National Association, Washington, DC; **John J. Hou**, Chief Executive Officer and President, Asian Pacific National Bank, San Gabriel, CA**; Dr. Jody Lee,** Chairman of the Board, Southwestern National Bank, Houston, TX; **Beverly Meek,** First Vice President, CRA Director, Flagstar Bank, FSB, Troy MI; **Thomas Ogaard,** President and Chief Executive Officer, Native American Bank, National Association, Denver, CO; **Joe Quiroga,** President, Texas National Bank, Mercedes, TX; **Kelly Skalicky,** President and Chief Executive Officer, Stearns Bank National Association, St. Cloud, MN; **Laurie Vignaud**, President and Chief Executive Officer, Unity National Bank of Houston, Houston, TX

OCC Participants Attending

Michael Hsu, Acting Comptroller of the Currency**; Jorge Aguilar,** Counsel, Washington, DC; **Jason Almonte,** Special Counsel, Washington, DC; **Charlotte Bahin,** Senior Advisor for Thrift Supervision, Washington, DC; **David Black**, Community Development Expert, Compliance and Community Affairs, Washington, DC; **Beth Bosco**, National Bank Examiner, Trevose, PA; **Emily Boyes**, Counsel, Washington, DC; **Joyce Cofield**, Executive Director for Workforce Diversity and Inclusion, Washington, DC; **Beverly Cole**, Deputy Comptroller, Northeastern District and Designated Federal Officer, New York, NY; **Joel Denkert**, Deputy Comptroller, Midsize Bank Supervision, Chicago, IL; **Vonda Eanes**, Director, CRA and Fair Lending Policy, Washington, DC; **Lissette Flores**, Community Relations and Minority Affairs Specialist, Washington, DC; **Janet Fix**, Analysts to the Deputy Comptroller for Community Affairs, Washington, DC; **Eugene Floyd**, Senior Financial Economist, Washington, DC; **Grovetta Gardineer**, Senior Deputy Comptroller for Bank Supervision Policy, Washington, DC; **William (Bill) Haas**, Senior Advisor to Senior Deputy Comptroller and Chief Operating Officer, Washington, DC**; Larry Hattix,** Senior Deputy Comptroller for Enterprise Governance and Ombudsman, Washington, DC; **Brian James**, Deputy Comptroller, Central District, Chicago, IL; **Amy Klein**, Associate Deputy Comptroller, Western District, Denver, CO; **Ernie Knott**, District Financial Analyst, Northeastern District, New York, NY; **Terence Mack**, Associate Deputy Comptroller, Southern District, Dallas, TX; **Andrew Moss**, Director for Minority Outreach, Washington, DC; **Donna Murphy**, Deputy Comptroller for Compliance Risk Policy, Washington, DC; **Yoolin Na**, Director for District Licensing, Washington, DC; **Linda Nichols**, National Bank Examiner, Washington, DC; **Valarina Oliver-Dumont,** Central District Licensing Analyst, Chicago, IL; **Erica Onsager**, Counsel, New York, NY; **Brittany Shaw**, Program Analyst, External Outreach and Minority Affairs, Washington, DC; **Andrea Shearin**, CRA and Fair Lending Compliance Policy Specialist, Washington, DC; **Jasmine Talton**, Counsel, Southern District Office, Dallas, TX; **Barry Wides**, Deputy Comptroller for Community Affairs, Washington, DC.

External Speakers

Diana Banks, Vice President, American Bankers Association American Bankers Association, **Sara Reid**, Executive Director of the MinBanc Foundation;

Public Observers

Michael Bailey, Senior Vice President, Chief Compliance Officer, American First National Bank, Houston, TX**; Jennifer Bisenius**, Wells Fargo Bank, N.A., Minneapolis, MN; **Donald Bowers**, Vice President, Industry Outreach, Federal Reserve Bank of Dallas, Houston, TX; **Andre Bueno**, Bueno Group; **Robert Carpenter**, Senior Regulatory Specialist/Financial Analyst, U. S. Small Business Administration, Washington, DC; **Lorraine Cole**, PHD, Chief Diversity & Inclusion Officer, Department of the Treasury, Washington, DC; **Karen Derksen,** CRCM, Vice President & Bank CRA Officer**,** NBT Bank, Norwich, NY; **Yvette Downs**, Director Bank Policy & Oversight, Department of Treasury, Washington, DC; **Seth Dunbar**, Senior Outreach Advisor, Federal Reserve Bank of Dallas, Houston, TX; **Sonja Ellis**, PMP, Acting Senior Program Specialist, Minority Depository Institutions Program, FDIC, Washington, DC; **Julieta Ezeiza**, Assistant Vice President, Industry Outreach, Federal Reserve Bank of Dallas, Houston, TX; **Darlene Goins**, Strategic Planning Leader, Wells Fargo, San Francisco, CA; **Doug Gray**, Assistant Vice President, Federal Reserve Bank of Kansas City, Oklahoma City Branch; **Kim Hannay**, Banking Manager, Lending Club; **Amanda Kannas**, Wells Fargo Bank, N.A., Minneapolis, MN; **Sandra Keesee**, Assistant Vice President, Senior Compliance Analyst, Seacoast Bank, Stuart, FL; **Kendra Key**, Citi; **Joe Kiser**, Community Outreach and Financial Empowerment Officer, Kalamazoo, MI; **Madiha Latif**, Deputy Assistant Commissioner, Compliance & Reporting Group, Department of the Treasury, Washington, DC; **Joy Langston**, Southwestern National Bank, Houston, TX; **Russell Lau**, Chairman and CEO, Finance Factors, Honolulu, HI; **Kase Lawal**, Unity National Bank; **Jennifer Leighton-Guzman,** MPA, Vice President, Community Development Officer**,** Texas Capital Bank, Houston, TX**; Daniel Letendre**, Managing Director, CDFI's Bank of America; **Stephanie Lopez**, Director, Supplier Diversity, First Republic Bank, San Francisco, CA; **Cheryl Mancha**, Senior Outreach Advisor, Industry Outreach, Federal Reserve Bank of Dallas, Houston, TX; **Christine Niska**, Wells Fargo Bank, Charlotte, NC; **Kaitlin O'Keefe**, IT Security Analyst II, Regulatory Relations, FIS Global; **Inge Plautz**, Senior Vice President and Executive BDO, Old National Bank, Milwaukee, WI; **Edith Repoff,** Senior Executive Vice President, Chief Operating Officer**,** New Omni Bank, Alhambra, CA; **Betty Rudolph**, National Director for Minority and Community Development Banking, FDIC, Washington, DC; **Deidre Sample**, Senior Vice President, Director, Third Party Risk Management, Seacoast Bank, Stuart, FL; **Frank Shashaty**, Second Monetary, NY; **Yolonda Stradford**, Senior Vice President, Federal Government Relations, Washington, DC; **Griselda Wallace**, Deputy Chief Diversity and Inclusion Officer, Department of the Treasury, Washington, DC; **Will Waller**, M3 Funds, LLC, Salt Lake City, UT; **Brigitte Wilson**, Director, CRA Investment & Loan Manager, MUFG Union Bank, N.A., Oakland, CA.

Others

In addition, persons that did not identify themselves called in using the following telephone lines:
202-321-2563, 202-270-1425, 202-579-3574, 205-886-7920, 240-421-0745, 401-714-6228, 405-219-5173, 612-210-6095, 956-212-1600,