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Statement by

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House Financial Services Subcommittee on Consumer Protection and Financial Institutions

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Thank you, Chairman Meeks, Ranking Member Luetkemeyer, and members of the subcommittee. I appreciate the opportunity to be here today to discuss the Federal Reserve's program to preserve and promote minority depository institutions (MDIs).

The Federal Reserve's Partnership for Progress (PFP) program, established in 2008, was created in recognition of the importance of MDIs. The PFP works to preserve and promote these institutions. We understand the challenges inherent in providing access to credit and other financial services in traditionally underserved areas, and through the PFP program, we support an inclusive financial system. The Federal Reserve remains strongly committed to identifying and carrying through on all opportunities to support MDIs.

At the Federal Reserve Board of Governors (Board), the PFP program is jointly overseen by the Division of Supervision and Regulation (S&R) and the Division of Consumer and Community Affairs (C&CA). I serve in the role of co-chair for S&R, and Senior Associate Director Anna Alvarez Boyd serves as co-chair for C&CA. This joint management allows us to pair our community banking expertise with our community development expertise to most effectively support MDIs and help them fulfill their missions and address the challenges facing their communities. This unique arrangement leverages the creativity and outreach of our community development programs and our forward-looking approach to safety and soundness supervision. In addition, each of the 12 Federal Reserve Banks has a designated PFP coordinator, who we communicate with regularly and who provides technical assistance to the MDIs in their district to fulfill the mission of the PFP program.

The Federal Reserve has primary supervisory responsibility for 15 state-member MDIs. We provide direct technical assistance and outreach to our regulated MDIs, but we also view our congressional mandate in section 308 of the Financial Institutions Reform, Recovery, and

Enforcement Act to preserve and promote MDIs as more than simply supervising these institutions. In this regard, we actively work with our colleagues at the other agencies with section 308 responsibilities to ensure a coordinated approach to supporting all MDIs.

In addition, we are able to leverage the many resources available to us as the central bank of the United States to support MDIs consistent with the goals of the PFP program. First, as you know, the Federal Reserve is a research-driven institution, and we have engaged with internal and external stakeholders on a range of research to enhance our understanding of the business models of MDIs and how they serve their communities. Second, Federal Reserve leadership, including Board Members and Reserve Bank presidents, has spoken publically about the importance and positive impact of MDIs on underserved communities.<sup>1</sup> The Board also publishes an annual report on MDIs,<sup>2</sup> pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act. A copy of the Board's most recent report is included with my written testimony. Third, through the tremendous convening power of the Federal Reserve, we have been able to bring together individuals and institutions to form partnerships that will assist the MDI sector. For example, in August 2018, we hosted a meeting of Native American financial institutions on the Flathead Reservation in Montana. This meeting provided an opportunity for Native American banks, credit unions, and community development financial institutions to talk about how to better serve their communities. Moreover, this month, we collaborated with the

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<sup>1</sup> Jerome H. Powell, "Welcoming Remarks" (speech at Expanding the Impact: Increasing Capacity and Influence, the 2017 Interagency Minority Depository Institution and Community Development Financial Institution Bank National Conference, Los Angeles, CA, April 5, 2017), <https://www.federalreserve.gov/newsevents/speech/powell20170405a.htm>.

James Bullard, "Welcoming Remarks: A Forum for Minorities in Banking" (speech at Banking and the Economy: A Forum for Minorities in Banking, St. Louis, MO, September 26, 2019), <https://www.stlouisfed.org/from-the-president/speeches-and-presentations/2019/welcoming-remarks-forum-for-minorities-in-banking>.

<sup>2</sup> Board of Governors of the Federal Reserve System, *Preserving Minority Depository Institutions* (Washington: Board of Governors, May 2019), <https://www.federalreserve.gov/publications/2019-may-preserving-minority-deposit-institutions.htm>.

Federal Deposit Insurance Corporation (FDIC) to host a roundtable in Chicago for MDIs and larger financial institutions to discuss partnerships that could be mutually beneficial for both types of institutions.

We continue to seek creative ways to address the range of concerns we hear from our MDIs, such as the challenge to attract and retain talent at all levels of their organizations. For example, this September, the Federal Reserve hosted its fourth annual Forum for Minorities in Banking (forum), which is a leadership gathering for minorities at any banking institutions, not just specifically MDIs. The forum is designed to provide minority bank leaders with industry, leadership, and professional development resources that will enhance their careers and networks. At the most recent forum, in September, we had 171 attendees, and agenda items included presentations on a history of America's first black banks, inclusive leadership, cybersecurity, the housing market, and our PFP program.

As I mentioned previously, the PFP coordinators at each of the Reserve Banks maintain regular contact with our supervised MDIs and provide technical assistance as needed. Recently, our district coordinator from the Federal Reserve Bank of San Francisco worked with his team to provide technical expertise around the Bank Secrecy Act (BSA) for an MDI. The request for technical assistance was initiated by the bank after they attended meetings with Federal Reserve PFP staff and learned more about the outreach options available through the program.

We also know that it is important for leadership at the Board to hear directly from MDIs. Therefore, starting in 2018, the Board began hosting a biennial MDI Leadership Forum where executives of our supervised MDIs are invited to meet with Federal Reserve governors and senior staff in Washington, D.C. In 2018, they shared their perspectives and challenges in a

meeting with Vice Chair for Supervision Randal Quarles. The goals of the MDI Leadership Forum are to

- provide MDI chief executive officers (CEOs) and executives with an opportunity to engage in discussions with Federal Reserve staff and leadership, as well as engage with CEOs and executives from other MDIs;
- hear directly from peer MDIs on the challenges and opportunities they face and to work with the Federal Reserve on solutions that can help MDIs better address these challenges;
- provide targeted regulator updates on timely industry topics such as the Current Expected Credit Losses accounting standard, the BSA, and other relevant topics; and
- provide a forum for our MDI leaders to interact directly with Federal Reserve governors to express their views on the opportunities and challenges facing MDIs.

In addition to promoting existing MDIs, the Federal Reserve supports the creation of new MDIs by providing information about financial institution development, including about the process of starting a bank and managing a bank through the de novo period. Further, district coordinators from each Reserve Bank periodically discuss emerging issues, attend conferences, serve on local exam teams during examinations, and collect feedback from MDIs on what they are seeing and how the PFP can provide additional assistance.

Finally, we make every effort to ensure that MDIs are taken into consideration when we are formulating regulatory and supervisory policy. Staff from our S&R and C&CA divisions provide insight to Federal Reserve leadership, staff, and examiners about the unique attributes

and contributions of MDIs so that we can tailor regulatory and supervisory frameworks where it is appropriate to do so.

Thank you for inviting me testify today, and I look forward to your questions.