Transcript of Unleashing a Financially Inclusive Future: How Mission-Driven Organizations Advance Financial Inclusion
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DAVID NEWVILLE. All right, good afternoon, everybody. Thank you for joining us for this next panel. We're going to be focusing on mission-driven organizations. My name is David Newville. I'm with the Division of Consumer and Community Affairs. I'm in our Research, Analytics, and Engagement branch, and this is we're 1.5, we’re 1.5 percent of the way through the Financial Inclusion Conference so far, and I'm particularly excited. I mean, it's been great content all around. But I'm particularly excited for our panel, because I believe that in all our coverage so far, we really haven't focused on, exclusively on financial institutions yet, even though they obviously play a pretty key role. And I think when people think about financial institutions, obviously there's no financial inclusion without financial institutions. People often think, and rightly so, that there's a lot of attention as referred to they already focused on banks, financial institutions versus non-banks outside the system, and the relationship there, and all the things that come with that, particularly when it comes to a regulatory approach. But a lot of people don't realize, you know, who folks in the room here, but folks online, may not realize that, you know, not all financial institutions come in the same stripes or the same approaches when it comes to financial inclusion. And when it comes to mission-driven organizations, particularly looking at underserved communities, as we heard, the shout out coming from Governor Barr earlier, really kind of lean in and focus on underserved communities, in particular ways. And people, you know, it's confusing enough with the regulatory structure, but folks may be confused about what's an MDI versus a WDI versus a CDFI. So, we're going to get into all that, the alphabet soup of different types of organizations. And we're going to get very concrete about some of the real differences that these institutions are making in their communities. And we have a wonderful panel here to join us, the perfect panel to discuss this. We have practitioners, we have researchers, we have members of our own Fed System to kind of talk about the role that we play in this ecosystem as well. And we're going to dive into all of that. I will do very brief introductions of all of our panelists, in no particular order. And then how I'm going to approach this is I will ask everybody kind of an individual question to go for the first round, give them a chance to introduce themselves or their organizations a little bit further if they want. Then we'll do another round for everybody. And the questions everybody gets, we'll start with them, but if others want to chime in, they should jump in as well. We'll do some general questions, and then we'll try to save some time for questions from you all as well. So, with that, we will dive into the bio. So, again, starting in no particular order, I'll start with Nicole. Nicole Elam is President and CEO of the National Bankers Association, also known as the NBA, and the youngest person to serve in that role since the organization's founding in 1927. Ms. Elam is an attorney, and brings a robust background in industry, having worked in government relations and public policy for more than 17 years. Most recently at JPMorganChase, where she led efforts to invest in equity and inclusive economic growth. And then we have Gregory Fairchild, who is the Isidore Horween Research Professor of Business Administration, and the Associate Dean for Washington D.C. Area Initiatives and Academic Director of Public Policy and Entrepreneurship Dean and CEO of UVA. Mr. Fairchild's research focuses on community and economic development financing, particularly related to best practices and multidisciplinary approaches, as well as entrepreneurship. He also works as a consultant for corporations, nonprofits, and government agencies, in addition to his academic work. And then we have Darrin Williams, who is the CEO of Southern Bancorp, which focuses on economic opportunity and communities throughout the Delta region and manages more than 2.8 billion dollars in assets over 56 locations. Mr. Williams, an attorney and former legislator and Southern Bancorp concentrate on homeownership, entrepreneurship, and savings as a way of building wealth in the communities they serve. Mr. Williams is also part of the Fed family. He sits on the board of the Little Rock branch of the St. Louis Federal Reserve Bank. And last, but not least, we have Tesia Lemelle, who is the Program Manager for the Partnership for Progress at the Philadelphia Federal Reserve Bank, where she works with institutions that promote banking access to underserved communities. The program run by Ms. Lemelle provides tools to institutions, including one on one discussions determining the needs, goals, online content and resources, training programs to increase examiner awareness, and outreach programs, among other things, with a goal of safe, sound, and accessible banking system for all. So, we'll kick off the individual questions with Darrin first. And, again, feel free to introduce yourself and your organization a bit more if you'd like to. And then if you could tell us a little bit about CDFIs, in particular, community development finance institutions, and help folks, especially those online who may not be familiar with them, understand the basics, what's the difference between CDFI banks, loan funds, and other types of traditional financial institutions, and how have CDFIs evolved in your time and industry.

DARRIN WILLIAMS. So, thank you, David. And so happy to be here. Thank you for inviting me. And thank you to the organizers of the conference. So, Southern Bancorp. We are among the first CDFIs ever certified, back in the early 1990s when Bill Clinton passed the President Clinton passed the REGO Act, which created CDFI fund at Treasury. Southern was founded well before that, as a mission focused institution. We were modeled after maybe the first development bank in the country, a bank called South Shore Bank. And at the time, Governor Clinton was governor of Arkansas, trying to find ways to stimulate activity in Arkansas' Delta region, a very historically poor community that suffered from a number of ills. South Shore Bank was a bank that operated on the south side of Chicago, predominantly minority community that had been redlined, and organizers decided to create an institution that would focus on investing and lending to that community. And over time, you saw housing starts to go up, you saw small businesses begin to thrive. And so, Governor Clinton came across a report about South Shore Bank and invited folks from Chicago to Arkansas to start Southern Development Bank Corporation. Fast forward, when Governor Clinton becomes President Clinton, he loves the idea so much, he takes it to, he takes it to Washington D.C. and creates a CDFI fund. And we're part of the first group of CDFIs ever that were certified. So, we are really three CDFIs. So, we are on what I call the for-profit side, a bank holding company, I have the pleasure of serving as CEO of the holding company, it wholly owns Southern Bancorp Bank, which is today a 2.9 billion dollar CDFI with 56 locations, with a mortgage company that serves in addition to Arkansas, Mississippi, serves Tennessee, Alabama, Georgia, and a little bit of Texas. So, we're expanding. We just, I guess, I guess three weeks ago, announced intention to acquire another CDFI bank based in Springfield, Missouri, that would put us in Oklahoma, Missouri, as well as in Texas, fully with operations. That's Legacy Bank and Trust. They're about a 1.9 billion dollar CDFI. It will be close to 5 billion when this, when the Federal Reserve accrues this acquisition, when it all goes through. So, that's on the for-profit side. On the nonprofit side of our organization, Southern Bancorp Community Partners, which is a CDFI nonprofit loan fund. And to David's questions, CDFIs take a number of shapes. They're banks and credit unions, what I would call they take deposits. And then they're also loan funds and venture funds. And they may be for-profit or nonprofit. So, just a little bit more about the industry. As a CDFI, the certification says that 60percent percent of your activity, and they really measure lending, must take place in low- and moderate-income communities. So, we really measure that, almost at the Census track level. So, these institutions were started and created for the very purpose of financial inclusion, right, to help folks who otherwise were not getting access to capital and credit, help communities that had been disadvantaged, historically overlooked, and denied access to capital and credit. So, our very work, more than 60 percentpercent, or at least 60 percentpercent of our work has to be in those, in those communities that have been left out, left behind, and often forgotten. I tell folks that we serve places where large institutions have abandoned. And so a little bit about the Arkansas Delta, where Southern works. Again, I said, we have 56 locations across Arkansas and Mississippi. And 75 percentpercent of our branches are located in communities that are rural. In eight of our markets, we're the only bank in town. An additional three, there's one other financial institution, our competition’s often are predatory providers. So, for example, in the State of Mississippi, there are more storefront payday lenders in Mississippi than are McDonald’s, Burger King, and Starbucks combined. So, I'm not often competing with other bank. I'm competing with someone who provides high cost, often predatory forms of capital. So, in addition to providing capital, we also provide really high touch financial education and small business technical assistance to our, to our borrowers, and this is what's really needed. A little overview of the industry. In 2023, the New York Fed did a study and looked at the CDFI space, and how it had grown over time. It had reached, at that time, 452 billion in assets total. There were, at that time, 1,487 CDFIs. That's all the different types combined. Mostly credit unions followed by loan funds, banks, being the smallest, well, banks, and then venture funds being just a very few venture funds. Today, that number has dwindled a little bit. There are a new policy shift around how do you certify as a CDFI. And many CDFIs are not either choosing to regain, to continue that certification, or not eligible to maintain their certification. So, that number, according to the

Richmond Fed, that has dropped, reported I think in March of this year, to 1,414 CDFIs. Again, credit unions and loan funds make up the vast majority of them. On the what I would call depository space, again, credit unions, loan funds, we take deposits. And then we lend those in the markets according to CDFI guidelines. Loan funds and venture funds are,while they don't take deposits, they have to raise capital. So, they partner with a great public private partnership partner with other institutions to raise capital. Southern Bank of Community partners, it's about a 50 million dollar loan fund, and we receive PRI investments, our charitable contributions from a number of philanthropic organizations and people who support the mission and work that we do, and then they run very high touch programs to provide capital credit, and, again, financial development services in the markets we serve, and I'll pause there and get further into it.

DAVID NEWVILLE. That sounds great. Thank you so much, Darrin. So, Nicole, now we'll shift to you. You can tell us a little bit about MDIs as well; minority depository institutions, and, you know, give folks a little background on that as well.

NICOLE ELAM. Perfect. How many people know who an MDI is, a minority depository institution? That's more hands than what it was five years ago. A minority depository institution is a bank that is predominantly owned or operated by people of color. And because of that, they predominantly sit in and serve communities of color. So, it's no surprise that a lot of their lending is going to communities of color, it's going to LMI and underserved communities. Our organization and National Bankers Association represents MDIs. And it was actually formed because minority banks at the time could not join the American Bankers Association. So, our banks were really born out of necessity to ensure that communities had access to capital and credit in the way that they needed. So, today, what makes MDIs stand out? What I would say is that minority depository institutions aren't just banks. What they are are drivers of wealth creation and communities. They are anchors of economic opportunity, and it's because of who they are and who they're serving. They are banks that are saying yes when other banks are saying no. Maybe because they are not serving them, or because, as Darrin pointed out, they're not even there to serve them, and the reason why our banks are able to say yes when other banks are saying no is because they deeply know and understand the people and the places that they are serving. Our banks are serving communities that are 77 percentpercent minority, that are two to three times more likely to be unbanked or underbanked. They're serving in communities that have persistent poverty rates at a rate that is four times that of other non-minority banks. So, they're doing the hard work. But there's great news in them doing the hard work. If you live in a community, and a minority bank is present there, you are oftentimes in a community that has higher credit scores, which most times people wouldn't think about that. But you're in a place that you have a higher credit score, just because of an MDI is sitting there, and that's based upon, again, the demographics of the communities that they serve. So, what's the differentiator? What makes them stand out? I think a couple of things that makes MDIs stand out is the alternative lending models. Right? You don't get to say yes when other people are saying no because you're doing the same thing as everybody else. Before alternative lending data became a thing, and alternative underwriting was a thing, these banks were doing it manually before anybody else. They were looking at cash flow data. They were looking at data that just wasn't on credit reports. That's how they got to yes. They're creating products and services that are tailor-made for the communities that they serve. Another thing that is a differentiator for MDIs is the culturally competent banking that they're doing. You know, the people who are in the branches serving the communities came from the communities. Multilingual services are a norm. The fact that they are providing products for immigrant households and immigrant businesses is a thing that's a norm, and lastly what I would say is that they are deeply focused on reinvesting into the community. So, the deposits that they get, they are using them to do increased lending in the community. And so, they are helping people buy homes, build businesses, and save for the future, ultimately helping people build wealth when other places and other banks aren't. So, I'll stop there so we can get to some crazy questions. I heard AI and innovation is coming up, and I'm an AI, no, I'm not an AI expert.

DAVOD NEWVILLE. So, thank you for that. You know, you and Darrin have definitely laid out, as Governor Barr said earlier, you know, MDIs, CDFIs, mission-driven organizations are really on the front lines of kind of paving those pathways, really prioritizing underserved communities, creating those models. And, you know, obviously setting up, taking things that are unknown, maybe risky, and showing that they are maybe not as risky or unknown. Gregory, I'll turn to you next to kind of talk about your research, since you've done work on both MDIs and CDFIs, to kind of talk about what are the research findings here, you know? What do we know about the effectiveness, limitations? You know, there may be some misconceptions about MDIs and CDFIs that research kind of indicates can clear up, given the vast amount of work that you've done in this space.

GREGORY FAIRCHILD. Hope so. We'll see what I can do. First of all, the University of Virginia, it's an institution started by a guy named Thomas Jefferson. It's a couple hours down the road. I work for the Graduate Business School there. I'm a researcher, which means I am not representing a financial institution. I'm here to critique them. And so, my work is generally where it looks at not what we might hope to be happening, but what we know happens or doesn't. I met Darrin when MacArthur Foundation had me studying the business models, so CDFIs, all the way back about 17 years ago, Darrin. Nicole Elam and I spent a little bit of time on the phone, because she had heard about the work that I had done. I did this work, some of what I'm going to show you, and some I'm showing now.

DAVID NEWVILLE. I think you just have to hit the, yeah, just hit the slide right there.

GREGORY FAIRCHILD. So, what I'll do is I'll let you know that this work builds on the work I did for the MacArthur Foundation, then I was asked by the Treasury to come back and do the 20th anniversary review of the CDFI fund. I also do sit on the board of LISC with a guy named Bob Rubin, who I think was there when the Riegle Community Act was started. Virginia Community Capital is an organization in the State of Virginia. I sit on that board too. But I am primarily a researcher. So, what I tend to do is look at the data, what the data tells us. I have few stories about families or individuals. I just look at numbers. So, if you're okay with that, I'd like to press on and do that. The work I'm going to show you is about two questions. First, whether CDFIs or MDIs are risky, riskier in two ways. One of them being are they more likely to fail? That is, institutionally fail, and secondly, are they inefficient? These questions are ones that you find a lot in the field. When the '08 crash happened, a lot of banking institutions went under, and there was a lot of debate in the public sphere about CDFIs in particular and whether they had caused the problems of the financial crisis of '08. It later turned out not to be true. At that point, I began examining questions like whether, A, was it true, and could we compare, and then secondly, some questions around whether in some ways the dollars that were subsidies that went into CDFIs or MDIs would just be better spent elsewhere. There really are, these questions come out of four things. Nicole spent a lot of time, and Darrin spent a lot of time telling you about how low-income and how minority their clients were. There are those who look at those things and say, well, that must mean they take on undue risk. They also told you about the size of the institutions, the market they operate in. There are people who think that that means that are less capitalized than other types of banking institutions, and that they happen to have less technological capability. The fourth question, remember, I work in a graduate business school, a place where we talk about finance, and usually no one talks about CDFIs or MDIs. The other thing people wonder about is whether there's market contagion, particularly as it relates to mortgages. So, when Nicole tells you that they are the lender in these communities, and Darrin does, one of the questions is if they have lent in a market where someone else has lent, and the housing in that market, one or more houses go under, it affects the loan to value ratios of the loans that Darrin and Nicole have done, even if they have been prudent in their lending. So, these questions then are ones that fall out of, again, what they've told you are the markets that they operate in. Let's take a next look. Risk of institutional failure. Now, some of you may know what a CAMEL model is, and if you do, you know the bank regulators use CAMEL models. CAMEL models are actually logistic regressions. They are logistic regressions that predict the likelihood of failure over a period of time. In this case, in most CAMEL models, that's over the eight successive quarters. So, in other words, if I started today, I could be able to look at the financial measures in a financial institution and I could tell you, with some degree of accuracy, whether eight quarters from now, two years from now, it has a likelihood of failing, and what that likelihood could be. That's what I do. And in this work, what I also did, if you see the bottom portion of that slide, something called data envelope analysis. If any of you are trained in operations management, you will know there's something called the efficient frontier, inputs and output models, and inputs and output models in any system, there are a set of things that come in the front door, there are a set of things that come out the back door. We measure what comes in the front door. You measure what happens in the middle. You see what comes out the back door, and you determine who is more efficient at taking inputs and outputs, and having them match on.

And that could be any type of thing. In this case, it's applied to banking and finance. But you'll find it in other types of research. I have typically done it in banking and finance research. How the work that I did includes all quarterly reports from 2002 to 2018 for every depository institution in the United States. And, by the way, it includes the recession. So, you can determine whether vulnerability was greater or lesser coming in and out of a recession. You should see at the bottom the size of the data set. It was right quite robust, giving great statistical power for those of you who like that sort of thing. You also can see that Nicole mentioned that MDIs are organizations and institutions that serve minorities. Many times, if you're a person that's Black and you say that, everybody thinks you're talking about Black institutions. But guess what? There are other types of MDIs, and, in fact, they are in the data set as well. Why don't we press on to what the data tell us? Oh, by the way, there are 122,837 observations of non-MDIs, because they are part of the comparison set. What you next should know is that the model itself, so you build this thing called the CAMEL model, and then you try to see how good it is at predicting outcomes. And so you look at past data, and you see how well it could predict what happened over the successive eight quarters. This here is the results of our model that we use. It just shows you how robust it is in terms of its accuracy. What you see there is the safe and failed institutions over that period are in the left hand column, in our predictions are there in the right hand column. As you can see, we did have type one and type two errors. That is, errors where we predicted that there would be failure and there wasn't, or errors that we predicted that it would be safe and it wasn't. But I think you will find that overall the model predicts that a 98.3 percentpercent probability, predicting that it would be safe if it was safe, and that it's pretty good at predicting the failure at another 1 percentpercent. So, a total of a 99.3 percentpercent predictability of the model. And, again, I should mention, I think I did, I was asked to do the scoring for the CDFI bond fund. It uses this exact same model. Let's proceed. The first question we wanted to know, and this, again, is the efficient data. I think I've already, I've already shown you these things, but this is a little more detail on how the efficiency model is used, what it does, and, again, what it's meant to predict. What you see here, this is a chart literally from the paper that was published in the Journal of Developmental Economics, what you see there in shaded areas, those are places where there was more than a 5percent difference between MDIs and non MDIs in their performance. If you do not see a shaded area, that means there was no statistical difference in performance between MDIs and non MDIs, over that entire 2002 to 2020 cycle. Now, what you'll notice is that there are very, very few of those. What you'll also see, and, again, registration is not perfectly great from this distance, but what I can tell you is that the dark line are the non MDI institutions, and that the dotted line are the MDI institutions, and those are our efficiency scores. You can see that they are tracking together. And you can see, again, the gray areas where they're not tracking together. What I want you to note is that the years where they're not tracking together, and there is greater than a 5percent difference statistically in their performance, if you were to look, for example, at the quarter between 2004 and 2005, you'll note that the dotted line is above the non dotted line, which means the MDI's performance was actually more efficient than the non MDI's performance. Now, again, some of you guys are saying, gee, given what those two said, how could that be? But you want to keep in mind that what a great thing about an efficiency model does is it models the performance against a like institution. So, when Darrin tells you the size of his assets, he's only compared to an institution with comparable asset sizes. He's only compared to an institution, so he's not compared to an institution that would be an apple when he's an orange. And by doing that, we're able to determine whether his performance, efficiently given what he had going in the door, looks the same going out the door. Or does it look less than? You can also see the other periods where there's a 5percent difference. And if you looked at 2016, you'll see there's a difference there, and you can see that it's lower. Now, I'm showing you these data as the result to all MDIs. I actually have these data for every type of MDI that was mentioned before. If you really want to read about this and geek out, please check out the Journal of Development Economics. I have the citations for you to look at. Here's what you should know. CDFI banks and credit unions have no greater risk of financial failure than mainstream financial institutions if you control for their size, their structure, and you can, we also looked at whether they have a greater likelihood of having mortgage market contagion. That is, they happen to have lent in places where other failures happened, which drove down loan to value ratios, and then caused an otherwise prudent investment to have problems. Despite serving predominantly low income markets, CDFI banks and credit unions had virtually the same level of performance as mainstream financial institutions. Again, economists, we use the word ceteris paribus. That is when we compare them to comparable institutions. So, you don't want to compare a highly capitalized bank in the State of Arkansas to Darrin's bank because that's not a fair comparison. I did just want to offer a few other things beyond research. If you ever want to talk deeply about research, I love doing that. The way this came out, I didn't know it was going to orient this way, but just a couple of things. There is some good news for those of us that follow what's been going on. For affordable housing, we know that recent federal decisions included the low housing tax credit increased 12percent from 9percent. Again, I know we're talking about financial inclusion generally, but many of the institutions that these folks work in actually support affordable housing. Also, private activity bonds. They also continue to fund. Which is, again, good for this industry. New Markets Tax Credit, and opportunity zones were made permanent, which is also a good thing. And then there's some, again, this is a thing, the way this slide was carried over, but the CDFI appropriations is one of the things that we're waiting to see what will happen. I think some of you will be around and have been around long enough to remember where, depending on administration, CDFI funds, appropriations have risen and fallen. And so we're waiting to see what's going to happen with that. I don't have a position on it. I'm just reporting that that's where we are at this moment. Thank you very much for your time.

DAVID NEWVILLE. Thank you, Gregory, for that very succinct and thorough overview of the effectiveness around MDIs and CDFIs. Now we'll pivot a little bit with Tesia, we'll talk a little bit about the Federal Reserve System's relationship with MDIs in particular through the Partnership for Progress Program. Can you tell us a little bit about the program and the history there and the relationship?

TESIA LEMELLE. Yes. Thanks, David. And, first, I just want to say, it's such an honor to be on this panel with these leaders, and I know just like all of you, it's so great to get the insights and just hear their experience. So, I was much soaking it in as being able to share about the Federal Reserve's Partnership for Progress Program with you all. So, Partnership for Progress was established in 2007, and it's a national outreach effort to support preserving and promoting minority depository institutions. I would also note that in 2021, we added women depository institutions to our program as well. And we really support mission driven institutions by recognizing that they're unique, you know, as we've heard from others on this panel. And we really want to help them to cultivate safe and sound banking practices. And to share a little bit more around what our program centers, it's really around connection. So, at each Reserve Bank across the country, we have a district coordinator who can be a personal contact to provide tailored support. So, we really feel that's important that the banks have someone that they can reach out to directly with questions or share information as well. And the role of this district coordinator is to really communicate regularly and make sure that they are helping in any way that they can from their, from their Reserve Bank, and share that information. The second component is capacity building. So, our program offers direct access to consultative support on a variety of regulatory topics through technical assistance. So, including one-on-one guidance, and what we have found especially is our smaller institutions and de novo institutions or de novo groups who are thinking about forming an MDI. You know, they reach out to us, and we're able to bring together a group to answer their questions and help them with what they are encountering as well. And then I would say finally it's the coordination. So, whether it's within the Fed System, with our interagency partners, or with, you know, the industry, we want to make sure that we are bringing the right information that's needed at the time. So, we really do try to listen and have some great discussions around what would be most beneficial. And we try to really just be as collaborative as we can, and just really understanding that MDIs in particular play an important role in expanding credit access to underserved communities. And really as we've talked about quite a bit today, the trust. So, trust has come up quite a bit. And Nicole touched on that with talking about having the culturally sensitive services available. And that's also something that's important to us. So, we really see our role as to listen, to provide support, and to really help share, you know, the impact and stories of these institutions as well.

DAVID NEWVILLE. Thank you, Tesia. So, great first round. We've gotten a lot of the kind of the overview out about mission-driven organizations. Now we're going to dive a little bit deeper. We'll circle back to you, Darrin. You kind of went in this direction a little bit. You touched on it in your overview and kind of talking about, you know, what the options are in some of the local communities you serve. Can you tell us a little bit more about the impact? And, you know, obviously when we talk about financial inclusion, we hear a lot about like different types of loan products or account access or dollars, total dollar numbers served, and those types of things. But can you give us some examples about, you know, the impact that you all have had and the local communities you serve and how it's made a difference for folks, whether it's through, you know, access to credit, or in other ways? I know you have a ton of stories you can draw from in this area.

DARRIN WILLIAMS. Yeah, there are a ton of stories. I would send you to banksouthern.com for a ton of customer stories. Customers tell this story much better about the impact on their lives, and we've got a customer video section that gives you countless stories. I was in Memphis last week with the legacy team, the leadership team that we're purchasing, and we took them around to meet some of our customers, and we met Dr. Tonya Lyons, who is a dentist in Memphis, Tennessee. And she has just a fantastic story. Sad that became a triumph story. But she had a piece of property that she had financed really a church. Her ex-husband who left her during breast cancer was a minister and left her with a significant amount of debt, huge parcel of property, and a building, and went through several years of trying to get this refinanced from a construction loan to a permanent loan. She went to 32 financial institutions, 32. She spent over, she says over $60,000 in brokers to help her find capital to refinance the construction loan. Went through a court proceeding, and at the end of the day, in about less than a month, we got the loan done. And she's a fantastic asset in the community, doing great work. And the property is not even where her practice is located. It's not where her dental practice. It's just her mission in this location, part of the church, she, once a week, she feeds over 200, or she provides fresh fruits and vegetables and groceries for over 200 people. She has a backpack giveaway that brings in over 8,000 people. She does a monthly giveaway that serves over 2,000 people. The city has named a street after her. You want to talk about the impact she's having, but she couldn't get this loan refinanced through any institution, and she has performed well. The interesting thing is there's a building on the property, it's about 50 acres of land, there's a building on the property that she's leased to a national charter school for 99 years that pays the full mortgage. It doesn't make sense that she couldn't get financed. African American female, had you known, all the challenges that you often see through discriminatory practices in lending. Just countless examples. And I can go on and on about examples. But at Southern, we really focus, and Nicole mentioned the trust factor, our lenders, our folks, they live in the community that they lend money in. They know these communities. They grew up in these communities. And to shed a little light on what Gregory talked about, about why the asset quality, and what we actually do well, is because we know the people, right? This is relationship lending. And so, when someone has a decision between who they're going to pay, they're going to pay the person, they're going to see a church, they're going to see their schools, their kids play together, and the town's only got 1,000 people in it, so you can't help but see them, right? So, you've got to pay them back. And so, you know, we can go on just a number of stories of impact. A couple things we've done that are unique, that may be, it's not what a typical institution would do. So, for 20 plus years, we've done volunteering and tax assistance in our branches during tax season. So, why do we do taxes? Not because we like doing taxes. Because that's often the largest check the low [inaudible] person is going to see. So, we marry that with financial education, trying to encourage them to take a piece of that and start saving. So, for the 20 plus years we've done this, we've done over 52,000 tax returns, returned over 100 million dollars to communities served; 47 million of that was folks who received the Earned Income Tax Credit, or may not have received it if they didn't know about it. So, last year, this tax season, we did 5,200 tax returns, 7 million dollars in returns, 2.8

million EITC, and we connected 1,104 people with financial education to assist them in the work that we do. So, that's just some of the examples. And just a little bit about our lending, our lending is different. So, last year, we did 9,270 loans: 938 million dollars in originations. Sixty-two percent of our loans are $10,000 or less. Now, any banker would tell you, it takes about as much time to do a million-dollar loan as a $10,000 loan, but you don't make nearly as much money, and so there's a little Robin Hood. Obviously, what we do, we do larger loans to help subsidize that. But that's what the customer needs. That's what the community needs. They don't need a big loan. And if you go to a larger institution, no knock on them, it's not their business model, to get a $10,000 loan, you've got to do a credit card application, it's going to come with a 28 percent interest rate. That's not the model that we use. And so, we cater the loan, and the underwriting, to our customers, so they are able to pay us back. And so, the impact that we have, you know, is tremendous across not just in education, not just in business, but also empowering people to save and accumulate assets. Because everything we do, at Southern at least, focuses on helping people build wealth. And often, a quote is cited from Pew research, says 70, seven zero percent of the people born into poverty never make it out. Your grandma was poor, your mom's poor, there's a 70percent chance you're going to grow up in poverty as well. But Pew looked at the 30percent who made it out and said, what was unique about that 30 percent? They all had some form of net worth. Maybe it was ownership of a small business or ownership of a home, take equity out of the home and send the kid to college. That breaks the cycle of poverty. So, everything we do, we do a lot about measuring outputs. We're really trying to measure the growth of a person's net worth, because that's the really focus on how a family is able to thrive financially. So, that's just a little bit about impacts.

DAVID NEWVILLE. Thank you, Darrin, for sharing. And really kind of showing the mission orientation of mission-driven organizations and the different approaches there. Nicole, sorry, to stay on track with the conference overall, you know, we want to keep the future orientation going, and kind of shift to that in this panel as well. Can you talk a little bit about what's top of mind for the MDIs, for your MDIs, for your members? And where you'd like to see the industry go in the future in terms of future growth and impact?

NICOLE ELAM. Yeah, that's a great question. So, post 2020, MDIs experienced historic investments, from the public sector. And when I say the public sector, the federal government, and the private sector. And that led to explosive growth, explosive growth across the sector. So, the sector, by and large, grew from 2019 to 2024. So, just a five-year period. The sector grew 47 percent in asset size. That far outpays any other segment in the financial services sector during that time period. And Black banks, right, we talk about there different types of MDIs. Greg mentioned there's Black, Hispanic, Asian, Pacific Islander, Native American, women owned and operated banks. During that five-year period, Black banks grew the most by 85 percent in asset size. So, explosive growth. So, the challenge that we have right now is sustaining that momentum, given this current environment that we're operating in, given the political headwinds that we're experiencing. And so, I would say the big things that I'm paying attention to is, one, the thing that led to their growth is now the thing that is making them a target. When we talk about lobbying and advocacy on the Hill, I can't talk about MDIs. I cannot say MDIs. I had to rename and rebrand. I am a mission-driven community lender. Why? Because if I say MDI, that's woke. I'm going to lose one side of the aisle, and so that's a huge thing that we're wrestling with right now. As legislation is getting passed, it does not include MDIs, because it's too divisive. Again, that very thing that led to them growing is the thing that is making them a target. We're also seeing federal programs under attack that they benefit from, like the CDFI Fund and other programs are under attack. Corporations, which were huge at giving them Tier 1 equity and deposits, are now pulling away, because they don't want anything to do with anything that has to say DEI, or so we're having to shift and move away from DEI or the perception of DEI. So, we're seeing corporations pull back the same corporations that help them grow. And so all of these things are challenges that they're having to rethink about and change the way that we talk about ourselves. And our mission doesn't change. But just how we talk about it changes. I'm not talking about race and people. But instead, I'm talking about places and socioeconomic factors. So, that's a huge thing. So, I would say that's the biggest thing, the thing that led to our growth is now the thing that is making us a target. The second is just regulatory reform. This isn't about being a minority bank. Just if you are a small bank, the regulatory and compliance costs are extremely burdensome. So, ensuring that as new regulations come out, that they are right size for the size of the bank and the type of lending that they do. So, regulatory reform is another big thing that is top of mind. And the third is technology. You know, we all know that technology is changing everything about the way that we do, how we work, how we live, how we play, and how we bank. And, unfortunately, our banks are not keeping pace with it. And if you're unable to digitally modernize, you're not going to be as competitive. Big banks spend 18 billion dollars a year on technology. My former, my former bank, spends 18 billion dollars a year on technology. The median asset size of an MDI is 470 million dollars. There is no way that you can keep pace with that. So, those are some of the things that are really top of mind for us. And what is going to enable our growth is really addressing some of those things. So, we need public, private, philanthropic partnerships that aren't transactional in nature, because when you've got a buzzword, you've got to pull out. That's, that's transactional, they have to be public, private partnerships and philanthropic partnerships that are transformational in nature. And then we also need right size regulations. We can't keep adding more and more regulations and not being thoughtful and considerate of the type of institution it is. And so right sizing regulations is also going to be something that I think is going to enable growth now and in the future.

DAVID NEWVILLE. Great. Thank you for that. Gregory, thinking of research, and keeping the future orientation, tell us a little bit more about where you see areas for future research when it comes to CDFIs and MDIs. And can you talk a little bit about the limitations that you're encountering in terms of research as well, as far as the questions that we can't answer and we can answer?

GREGORY FAIRCHILD. I'll take the second part of the question first. Questions you can answer and can't answer. First of all, I should have said in preface that the data that I use overwhelmingly has been with depository CDFIs. I have traditionally not been able to do work, you looking at loan funds, for example, unless, and there have been two occasions where foundations gave me the PRI databases, and I was able to use their PRI databases to look at similar financial measures for loan funds. Now, many of you will say that applying CAMEL models, cap asset management earnings and liquidity models, to loan funds, is not something you should do, because there's no demand deposit risk that a loan fund faces, where Darrin has to think about that all the time. And so, he must care about his depositors. The only thing that a loan fund has to do is make its donors happy. And as long as their donors are happy with the quality of their capital and the quality of their work, they're fine. So, I will tell you, more than once I went to the Opportunity Finance Network. More than once, I spent time with the folks in the CDFI Fund research division. There was a guy, a team that was there for many, many years. We spent a lot of time looking at many of the questions around loan funds. Those data have traditionally either not been available, because everybody didn't report into the CDFI Fund. If, in a given year, they didn't receive money, they didn't report. So, the data was spotty. Some reported in various ways and in various time periods. The great thing about depository data is that you are able to do it on a quarterly basis, because Darrin is not able to continue to operate because the FDIC will come see him if he doesn't. That's not the case for loan funds. So, the CDFI loan fund industry has complained about the challenges of reporting. But I have always said back to the industry, if you don't report, what you run the risk of is there not being data to show the strength of your industry. If you want to attract capital from outside of your industry, you have to be able to give data to show that your organizations actually perform at very high levels. I have been saying that for about 20 years. So, one of the things I would say for research would be if CDFI took seriously the idea of attracting capital from outside their industry, outside of the philanthropic providers that they currently have, if they thought about the larger picture they're trying to make, giving data to researchers is maybe a good thing that you should do. That hasn't always been the case. Next, I would tell you that, again, taking the second question, research seriously. So, there are two sets of researchers in this field. There are a set of those of us who do what we call impact research. And there are those of us that do what's called performance research. I'm in the second group. The vast majority of the research in this field is in the first group. And so, it's research that tells you all about who Darrin and who Nicole's groups are serving. It doesn't, again, say as much as could be said about, for example, if Nicole is talking about use of technology being brought to bear to produce scale in her industry, which would be very important for minority depository institutions, then it would be very important that those institutions find a way to create scale, given that each institution is relatively small. Darrin's absolutely right, that the transaction costs for a $10,000 loan are actually about the same as they are for the million-dollar loan, which drives down his overall efficiency. So, all in all, it would be better if these institutions put their funds together and created more sharing and pulling of research dollars. When I was on the Fund board, I asked a question one time. We were having a conference, not unlike this just a few blocks over, and I said to a few people that were leaders in the industry, would you rather, if we had 5 million dollars, would you rather we gave it to you so that you could put it out in the field, or would you rather we took the 5 million dollars and put an investment together so that all of you could have technology available for better operations of your industry? I'm sure you can guess what the answer was. And I just think that tendency, which I tend to find to be a, well, I think it's a mindset born of a lack of resources, quite honestly, that when people, either as individuals or families, or, yes, as institutions, tend to have fewer resources, if you say to them, should you make a long term investment, which will overall better your performance over time, or should you deal with whatever you think the problem is right in front of you right now, they'd choose the latter. So, I think the industry suffers, in part from the very things they've said, but also the reticence to share data, and also the reticence to make forward looking investments that cut across the field. There's more I can say, but let's just stop here.

DAVID NEWVILLE. I would say it's good to see that the challenges with future self and present self transcend consumers. But I guess that's not a positive thing in this example, or in the consumer example. But it's nice to know that some things are consistent, I guess, at least. Tesia, tell us about, you know, what aspects of P for P that MDIs report as being most beneficial to their organizations and communities. And then tell us, you know, keeping with the future orientation as well again, tell us about where you'd like to see P for P go in the future, where you see it going in the future as well as the industry develops.

TESIA LEMELLE. Okay, great. Well, hopefully, you know, what I emphasized from the first question that I had is that by having that local district coordinator, it really helps us not take a one size fits all approach. You have a local person that has a relationship with the institution that knows the operating market and has more information available. So, I do think that's really valuable to the institutions. And it's also valuable to us to be able to have that relationship. So, there's a, you know, local context that happens, and a local exchange of information. So, I do think that the institutions find that relationship and having that personal contact to be valuable the second part, really around the technical assistance piece. So, I think that's also been a valuable part of our program, that institutions take advantage of. And really being able to, from our perspective, bring together the right experts to answer their questions, and make it a space where they can ask us questions as well. So, I know that similarly we do get requests on a variety of regulatory topics. And I think it's important that we are able to be responsive in that way. And I do think that has also been a great benefit to those institutions. Having that access helps them, you know, navigate, build capacity, helps them with, you know, navigate supervision more confidently, and really stay focused on their mission. So, we're happy to be able to provide that as well. Other things to take a level higher is just thinking about, you know, our network of Federal Reserve branches across the country. So, Partnership for Progress is one piece of how we can support these institutions. So, with that local piece, there's a wealth of information that can be shared, whether it's through convenings like this, whether it's through research, you know, on any topic, we have information that can be shared also at a local level. So, I think that's also a strength that we provide from the Federal Reserve. I think looking to the future, you know, we want to continue to meet our statutory requirements to provide technical assistance. We're definitely interested in the promote formation of new MDIs. And then also providing training to supervision staff, you know, on MDIs as well. So, I think future looking, that's where, what we're focused on.

DAVID NEWVILLE. Great. Thank you for that. So, now we'll go to panel wide questions. I'll let you all respond. We'll do a couple of these. And then we'll turn to you all in the audience for your questions, make sure we have time for those as well. To start out, can you all talk a little bit about what community level challenges are most difficult for CDFIs and MDIs to address, and where you are seeing the greatest need to innovate in your daily work?

NICOLE ELAM. So many challenges. I think one of the biggest challenges is just lack of awareness. Oftentimes, people don't know the MDI or the CDFI that is right there that is serving them. So, awareness can be a challenge. Even if, as we try to expand, right, I can't just serve my market. I'm now trying to expand to other markets. There's just a lack of awareness of who we are. And we don't do a great job at storytelling. Everybody's not southern with an impact report. And so, we don't do a great job at storytelling. They are phenomenal at storytelling. Storytelling brings in more customers, more investors. And they don't do a great job at it. I think another thing is customer expectations is a challenge when you think about community level things that are happening. People want you to be high tech and high touch. And, hey, I want all the bells and whistles of a big bank, but I want you to pick up the phone and call me. I need this individualized support. And I need you to use other data to say yes to me. And I think banks are really struggling with relationship banking and being high tech and high touch. I think other community level challenges is that we are struggling to figure out how we can make financial services more accessible and more affordable, because the landscape is becoming more competitive. You've got non-banks, and you've got fintechs doing it quicker, faster, cheaper, because they've got scale. And that's a challenge that we're dealing with. Embedded finance, the fact that I don't have to go to a bank to get access to credit, is a challenge. These are all challenges that we're trying to work through. And then AI. Like how do you really skin that cat? We know that AI, that's probably not a politically correct thing for me to say, but the reality of it is is we know that AI is a game changer. But if you're a bank and you're just struggling with technology, cost, it's expensive, capacity. You'd be hard pressed to find a cheap technology officer, integrating it with your core, change management, as Greg talked about. So, there are so many challenges. And when I survey my members, while they want to leverage AI, they know they need to leverage AI for data and so many different things, enhancing the customer experience. What they say, 50 percent of them are saying just the cost and the lack of expertise is impacting their adoption. So, that is a huge thing that we're wrestling with and we're struggling with. And so, one of the quick things that we've been doing is focusing on bot technology. Right? So, how can you leverage bots to replace some of the manual processes that you're doing? We're not talking about replacing your staff, because I know they've been there for 20 years. I'm not saying that. I'm saying redeploy them to other things and leverage bots. And even that is a challenge. But that's an entry point. There's so many use cases for bots and other AI. So, those are some of the community level challenges that we're seeing as we're trying to best serve the communities that we're sitting in.

DAVID NEWVILLE. Just a few challenges.

NICOLE ELAM. Yeah, not many.

DARRIN WILLIAMS. Nicole covered a lot. I don't know, I accept all those. We have all those. But I think at the heart of it, too, we serve underserved communities. We serve communities where there's just not much capital, much credit, or much ability to even use that capital. So, by the very nature, we're in communities that are less than that have been forgotten about, and so if that community has a financial challenge, they probably also have an education challenge, have a healthcare challenge, it's got a number of challenges, right? So, it's not so, and we are often thought of as the savior for the community. And sometimes Southern, has been guilty. I won't say all [inaudible]. We've been guilty of doing, you know, moving outside of our lane. Like we need to be good at what we do and not do other things. And that's one of the things, when I got to Southern years ago, it's like, you know, why are we fighting crime? Like, we're not police. But it's like you want to finance a police car, great. But we shouldn't be fighting crime. But because in communities where there's a lack of, and there are few people trying to help, everything gets dumped on them. So, we are not just dealing with, you know, debits and credits and checking accounts, savings accounts, we're dealing with all the ills of the communities that we serve. And we want to help. But sometimes that strains, strains a little far. Nicole mentioned one that I will highlight, because we're at the Federal Reserve, and that is regulation. Regulation does not impact in what I'm saying. I'm so excited about what I hope will come under the leadership of Government Bowman. I was with her last week at a roundtable discussion where she brought CDFI banks from my region together in St. Louis and talking about ideas and thoughts about how do you tailor regulation to fit the right size bank. So, we are, at 2.8 billion in assets, our CRA regulation is the same as JPMorgan Chase. We're considered a big bank. And if you think, know how CRA works, it's really a relative to the economics of the community you serve. So, if I'm in a community that, you know, a third of my branches are in communities that are persistent in poverty, to be able to make a loan in the community where the community is, you know, a third of is below the poverty level, that really gets hard to do. And so, you know, fortunately for the last five exams, we have been now outstanding CRA rating. But that's hard to do in the markets we serve. So, right sizing regulation will be, will have a huge benefit.

DAVID NEWVILLE. Any other thoughts? We can pivot to solutions to some of these things, obviously. You know, one thing that comes to mind at least that doesn't address everything, like the regulatory aspects, but thinking about partnerships, you know, and obviously you can't just look to the local community when there's a dearth of resources otherwise, and already a lot being put on the backs of CDFIs and MDIs. But curious about what you see as some of the ways forward, or at least the initial pathways for potential solutions here, if partnerships is part of that, other things for obviously other challenges.

DARRIN WILLIAMS. I don't want to dominate the conversation, but clearly the CDFI fund itself is built on this public private partnership. It doesn't work without the partnership. And I want to highlight and echo and say thanks to those partners who haven't gone away, who haven't run, as political climate has changed, or some that have dug in and actually doubled down. And that's exciting. That makes, that makes, that makes, that makes the work, you know, accessible. And it allows us to do the work in ways that we may not be able to do if we don't have the partners. And there are a number of large banks, regional banks, even smaller banks that have invested in Southern equity, a lot of philanthropic organizations that are investing in Southern to assist us in our effort. But let me, let me go, you talk about AI, let me talk about technology, because that's a real solution. And Greg, I wonder what the answer would be if you asked that question today. That was five years ago. You probably have a few more people who would be willing to pool their resources together to try to help solve this technology challenge, because it faces us every day. And if we don't, if we don't really, as an industry, CDFIs and MDIs don't come together and figure out how we can pool our resources to do things together, it's going to be tough for us to make it. And so that's one of the things that we try to do at Southern. We really try to be aggressive in building partnerships with other CDFIs and MDIs as well. But we have, have an advantage of having been very innovative and very technology forward in the very beginning. One of the founders of Southern was a gentleman named Walter Smiley who created a company called Systematics, which a precursor to FIS. And so he was, he actually hired me. And so, we've been real, really progressive. We actually, 20 plus years ago, at the board, well before I got there, the board reached out to Walter and his family and said, hey, you've built a core process before. Why don't you build one and let us be your first customer? That company is called Smiley Technologies, Inc., or STI. And we actually own 10percent of our core processor. I've never heard another banker say anything positive about that core processor. I talk positively about my core processor because I can get them on the phone. They're actually in my meeting on a weekly basis. And they have now grown from us to several, you know, small community banks from coast to coast. But that's allowed us to be innovative. It's allowed us to change and try things. But about six years ago, Walter Smiley's son, Vance Smiley, left the company. He was CEO. His sister took over as CEO. along with our holding company. We built a cloud-based core processor. Now, every core will tell you they're in the cloud. But if they're all built on IBM main frames, that's really not true. Now, they may have some pieces that are in the cloud, but the core, the actual guts, is in the IBM main frame, so it cannot be in the cloud. You get behind it, it's held together by duct tape and twine. You probably don't want to see it. But we've actually built a cloud-based core processor. And we just call it our R&D arm. System 61 is the cloud core processor inside our bank. We've hired young people, not bankers, to build apps. And so, we have three or four apps in Apple store and in the Android store right now. But we're just doing research and development. And I'm really excited about what we're seeing. We have one app called Elevault that's in both the Apple store and the Android store. It is a, we basically said, what would you build if you were building a banking system without the shackles of the current system? Because you go to some developing countries, they are so much further ahead than we are, because they're not, they're not beholden to a core system or to even plastic, right? And most of the banking is done right here, and it's much more efficient. So, this app, Elevault, we're experiencing some really interesting, at least getting really interesting information. This, a couple of features. So, you don't have a checking account or savings account. You don't have money markets or CDs. You just have a portfolio. So, I don't know why we label it that. It's a portfolio of money. And you can actually divide this up into various what we call vaults. It's call it your monthly bills, right? How many of you all, at least this has happened to me, probably not you all, I remember right after the holidays, I decide I was going to join the gym. I went and joined the gym. I gave them my debit card. I never went back. And for a year, they kept [inaudible] but to just turn it off was like impossible. Right?

TESIA LEMELLE. I'm guilty. Yeah.

DARRIN WILLIAMS. So, instead of giving them your main account number, you can spit up a, what's called a vault key. I can send that to my mortgage company; I can send it to [inaudible] I can send it to my gym. I control that. I can turn it on and turn on of. That's one feature of it. It also has the feature that's really exciting to people, it has API that's tied to the Fed funds rate. So, right now, it's paying 4.5percent. But it pays and compounds daily. So, my kids are excited. Because I look every day and see they made $2. You can start downloading it now if you want to. It's pretty good. But it is, you know, you think about the cost of me expanding through brick and mortar, and the cost of acquiring customers through here, a month over month, the last two months, it's grown 30percent in deposits. And that's still small. And it's still our

R&D. But you think about the possibilities of if I can grow my deposits 30percent using technology, that's with a very, very limited spend, with Google ads. What can I do if I actually can invest? If I had 18 billion dollars, you know, what could we do? This is on a shoestring budget. And clearly, it's going to take partners to really probably monetize this. But we're really excited about some of the things we're seeing from a technology standpoint.

GREGORY FAIRCHILD. I'll take a bite at Darrin's questions. I'll take them seriously. First, I think that the level, I mean, so I work in a public institution. I work in a public university. The expectation is that the field is fundamentally going to change. Yours is too. The amount of money you're going to see coming, and where it's going to come from, is fundamentally going to be different. That's how I see it. There will be universities that will go out of business. That's just going to happen. There will be, in my industry, people are having psychological distress with the realization that money they had coming from the federal government for research of various types, we can talk about DEI, but it's not just DEI. It's just not going to be there. Now, my finding about, I wrote this, actually when I did the 20th anniversary review of the CDFI Fund. CDFIs have authenticity, to use a word, that the people in the industry are very devoted to their communities. Their identities are very interwoven with the types of institutions and the people they serve. That actually sometimes makes it very hard for people to be prepared for change that needs to come. Because what my community is my community is my community. And I'm very much a part of my community. And I've worked with my community for so many years. And everybody knows everybody there. So, because of that, when we come to those institutions and those people and we say, well, the underlying economics of the industry are fundamentally changing, and, in fact, some of you might not be here. In fact, we know that what the FDIC does is it, at certain points, tells institutions to merge. They can say you're going to be forced to close, or they can say, you're going to be forced to merge. Wouldn't it be cool if people in some of the CDFIs got together and said, we should probably merge? But, again, people's identities, my finding when I was doing research in the field, I came and visited your place too.

DARRIN WILLIAMS. We're a part of 15 acquisitions. We believe in mergers.

GREGORY FAIRCHILD. Well, and you guys were, you guys were merging long before.

NICOLE ELAM. Yeah.

GREGORY FAIRCHILD. You are in a state, by the way, which affords you some different types of approaches than you'll find in some other places. So, we can talk that way too, Darrin. But the point is a broader thing than your institution.

DARRIN WILLIAMS. I agree.

GRGORY FAIRCHILD. The point is that people in industries like these feel very committed to their cause and their group. And this prevents them, in my experience, from extrapolating what isn't so unique about their institution or their people or their cause, and to be ready to change. What I hear, I'm not so much in the field anymore as I was years ago, because I have a day job at a university where we do some other things, but I can share that when I was in prior Republican administrations when CDFI funding was being, was being diminished, it was very hard for people in the industry to not see this as political and to see it as short term and to see it as something that they had to fight in the political sphere. And at one point I remember being in a meeting. Now, again, Southern is a little bit different. But I said, you know, if all of you all were lined up on one side of the aisle, you're going to have a problem when the aisle shifts. And so, you should be building not just political coalition, but you should be building business models that make you relatively resilient to those types of political wins. And don't expect that the money is going to be there.

NICOLE ELAM. Yeah, I think to Greg's point, we have to be more thoughtful about how we see partnerships and collaboration. It has to change. Because partnerships can't just be about you writing a check, or you giving me dollars. It's going to have to, it's going to have to be about in kind. What vendors can you bring to the table that you can negotiate cheaper rates? How can you help me work with a fintech, and they can develop a product that's affordable for me? And so, I think the way that we think about partnership has to change. And the way that we think about collaboration has to change. We have to do more together, because we've got to be more competitive, and we've got to have skill. So, we've got to collaborate with one another. When I think about our future, it's all about partnerships. It's like a four-legged stool. I need public, private, philanthropy and technology. They like stand alone. But I think you need all four of those at the table in innovative, creative ways, that is more than just about writing a check in order to be successful.

DARRIN WILLIAMS. I don't want to be all doom and gloom. Listen, I think, I think Greg, the industry has done what you said some time ago. There is a CDFI Senate caucus that has 14 Democrats, 14 Republicans that fight.

NICOLE ELAM. And you can't join unless there's another person.

DARRIN WILLIAMS. Exactly. They have a Noah's Ark approach, where you have to have, it's two by two, you've got to have someone on the other side to join. And I think that's the reason you're seeing so much support for this space, because of that. And I'm a former elected official. And I told my colleagues I was a Democrat then. But, you know, I can count to 51.

That's what I needed. I didn't really care where they came from. I've just got to get my votes. And so, I always believe in working across the aisle. And I'm glad to see that the CDFI Fund, or the CDFI space, the mission driven space, is really being, you know, thought about, thinking about how we approach this in a much broader way. Right now, the head of the Financial Services Committee on the House side is Congressman French Hill, my Republican Congressman who is a good friend of mine, been friends for years, who is a former banker, and a former CDFI Fund advisory board member. And he's Republican. And he was a big supporter of the work that we do. And you can go down, down the aisle on both sides where you're seeing that. So, I do think that's right. And to Nicole's point, we do have to think differently. And that's one of the things that we really, really are trying to do. This idea of this cloud-based app was not just for us. We were trying to get others to join as well. We've also invested one of my board members has a company called BankLabs invested in a product called, or a technology he's created called Participate. If we don't start participating together in our lending, because that's how we make money, through loans, and so I've said this to my colleagues in more urban areas, like, listen, I bet you have no row crop corn on your books. I've got tons of it. But I also have very little high end, you know, office. We probably could build a better, a more sustainable loan portfolio if we did, if we participated together. And this platform allows you to do that, you know, in a very efficient way, using an app, and using technology, and not having to send tons of files back through e-mails in insecure ways. And so, we are really, really working and trying to bring these types of ideas, not just for Southern, but to the industry as a whole. And not just CDFIs and MDIs, but community banks. Because we all start from the same kind of thing.

DAVID NEWVILLE. Yep, this is a good discussion. I mean, we're talking adaptation to change is difficult. Partnerships are going to have to be a key to this. More data. But, you know, continuing the evaluation of effectiveness and delivery, you know, I think is going to be really important. I'm going to ask.

NICOLE ELAM. You said something that really made me think. Data.

DAVID NEWVILLE. Yes, yeah.

NICOLE ELAM. There is so much data that we just don't appropriately leverage. And I think data is going to change the way that we can serve our customers. So much of it is manual. I was surprised, this is an Excel spreadsheet? I mean, it's just, there's so much data that our banks have that if they knew how to properly unlock it, that in and of itself would be game changing.

GREGORY FAIRCHILD. I saw this many, during the years I was out in the field with the MacArthur Foundation, there were so many times I was in institutions, and they had very outdated spreadsheets, and very outdated technology, and were doing so many things that manual input. And this was only, it was 15 years ago.

NICOLE ELAM. It's the same.

[UNKNOWN]. Same.

GREGORY FAIRCHILD. But it was, it was remarkable to me as I traveled the country.

DAVID NEWVILLE. So, one last question. And then we're going to go to audience questions. I'm going to attempt to take us in a happier, not a gloss over happier direction, but a positive direction, you all as the experts can push back on me if this is too sunny. But curious about your thoughts here. Particularly around technology. Because I want to go back to where Jo Ann Barefoot in her opening remarks kind of talked about, she particularly called out kind of the struggles that could happen for smaller institutions, like the ones we're talking about here with technological changes. But I do see some opportunities, whether it's in the data side. Obviously, whether it's gen AI, whether it's other technological changes, you know, Gregory, I'm sure you could talk a lot about this, it will improve our ability to evaluate data, to absorb data, to clean data, all those pieces, we're obviously seeing that at the Board here too, and the potential there is on the research side. I also, I hear some other themes that give me a little bit of hope. I'm not ignoring the downsides but choosing to focus on the positive ones here. We hear about, you know, we all know the classic, it costs the same to underwrite the $10,000 loan as the million-dollar loan. We've heard about the potential of alternative data. Obviously, we're looking at small dollar loans. And maybe not looking at mortgages yet, right? But cost efficiencies there, technological improvements there that could make it cheaper, easier to customize to the unique needs of local communities where it's expensive to do that now, thinking about that piece of it as well. And if you combine some of these technologies, if they're able to be leveraged, if they're done in partnership to, to lower costs, plus the relationship banking and the power that you all have, that seems like, again, I'm painting a very rosy scenario here, so you can tear it apart in 10 seconds, but I see some potential there, or at least a pathway. Again, not to be overly rosy, but I see some potential there that gives you all challenges, but some advantages too potentially on the other side of this. I'm curious, yeah.

GREGORY FAIRCHILD. I just, I'll say, you know, whenever I sit on these panels as the researcher, I always want to say that I do believe in this industry, in all the ways that, everyone at this table does. And my job is to go in and look at it a certain way. And my job is also to say, these are the harbingers that don't look great. But please don't misunderstand. I actually believe very much in the things that you are saying right now. The problem for researchers is always is we only can look at what data we have available. And we can only look at what we've seen in the past. What remains is what could happen. And, again, I've already made the pitch, the more you give us data to try to help with that, we can't. But please know the types of partnerships, the types of sharing of resources to create scale and capacity, absolutely, absolutely, absolutely. And this is what I hope for this industry, because I think this industry, I'm not an impact researcher, but I'm aware of the impact. And I'm also aware of what would happen if this industry were to decline significantly. I just want to say that.

NICOLE ELAM. You know, it would be a huge competitive advantage if they figured out how to be high tech and high touch, because they've already, they already know how to be high touch. It's just how do we, how do we become more high tech? And so, is there a path forward? Is there a bright future? Yes. But how do you get started on it when it can be so overwhelming and I don't have somebody who's focused on technology? I think that's a thing that we're wrestling with and struggling with. We just did our strategic planning retreat where we bring all of our member banks together in person. And PWC did a survey of our member banks, and they just looked at call report data. And it was a focus on growth and efficiency. And some of the main drivers of growth and efficiency, now, there are a lot of other factors, there were four big factors, but it's tech and talent. Tech and talent. If they can get tech and talent together, we're golden. Now, it's going to look different. It's going to be smaller. You're going to have to figure out your niche. You may not be able to do everything. You might, so there's all these other disclaimer, disclaimer, disclaimer. But if tech and talent, if they can get that, change management is hard. It's not going to be, it's going to be uphill battle. But if they can, if they can figure that out, the future is very bright. And what they do does matter.

DAVID NEWVILLE. All right, audience questions, we can go to you all now.

AUDIENCE. This has been in the last five years. And I think both because of the growth, and because of the experiences coming out of the pandemic, I'm curious how you think mission-based organizations are thinking about scale in a way that maybe they weren't five years ago? What are the big lessons? I know when we started our paper on small business, we were looking at the high tech and high touch combination. And one of the lessons that we kept coming back again, so it's not just data and technology, those are absolutely critical, but it's so much more, it's culture, organization, financing, so many other things. And I'm just curious, what stands out to you as the lessons learned from the last five years?

NICOLE ELAM. They have not had the capital to think about scale. And so, I think one of the great things over the last five years, whether it was through ESEP or it was big banks making equity investments, they now have the flexibility to think about scale in a way that they never could have thought about it before. And so, you are seeing more M&A activity. You are seeing them being more thoughtful of I could only hire the talent that was missionly focused on us. Now I can think about the best talent for this job in this role. And that's not just mission minded. So, they're able to look at a different talent pool. They're able to get technology that they couldn't get before, because they didn't have the capital. So, I think one of the biggest lessons over the last five years is that it's given them the capital to think about scale in a way that they never had the luxury of thinking about it before. You also did not see doors close, right? If you think about prior times when there was a pandemic or an economic downturn, people closed their doors because they didn't have the capital to withstand it. So, now they had the capital to get to the other side. And so, I think the biggest thing and the greatest thing is that they can think about scale. And they're trying to execute it. Now, some of them have been slower at executing it, because there's so much uncertainty. A lot of people were doubling down on climate. And it's like, well, wait a second, I don't know, let me pull up, so I think that there were a lot of things that people were thinking about that it slowed down. But they're not stopping and moving forward and thinking about scale in a way that they hadn't before.

AUDIENCE. Well, Nicole and Darrin, you've got a good opportunity coming up. I'm warning you in advance. So, you talked about regulatory and compliance costs being there and right sizing. If you had an opportunity to speak frankly to us about this at the Federal Reserve, what would be your top two or three things that you want us to focus on?

NICOLE ELAM. Yeah, so, I highlighted one.

DARRIN WILLIAMS. I want to highlight just how I examine, just like JPMorganChase for CRA purposes, and just the cost for us to, for us to maintain five, you know, consecutive exams of CRA, it's really, our work hadn't changed from being a satisfactory to being outstanding. We've just spent more money on collecting the data and telling the story about it. We spent more money on providing information to regulators. We didn't, the work hadn't changed, we're still doing the same work. But we collect it better now. So, that meant we had to hire people, more systems, more processes, to do that. So, that's one. And since I'm on CRA, I know this is a hot topic, but there were some things in that CRA reform that we like. And as you think about where that goes from here, please, please reach out to CDFIs and MDIs. We can tell you a lot of things that were actually good. There are things that we may not like, and there's a big divide between large banks and CDFIs and MDIs and even community banks, and that looks like there are a lot of things that we like. CDFIs, in particular, were put on a level playing field with MDIs, obviously, in just where investments can be made that are qualified for CRA purposes. Because it hadn't been changed in years, banking has changed. Model app, I just talked about, I have a customer in every state in the country. Every state in the country, I have a deposit.

You know, and so that's not how banking was done now. So, the reform has, the regulation has to keep up with how banking works today. And then our, you know, again, I say my competitors, it's not often another bank, it's often a payday, a predatory high-cost provider, there's got to be, these non-banks were doing banking activity. Like give us some help here. Because they don't operate in the same, with the same regulation restrictions that we do. But they are, but they are, in many ways, hurting our customers, but also clearly competing against us for customers. So, that's just a few ways, you know, and a huge area obviously is in BSA. You know, I don't know how many suspicious activity reports we've filed. I don't know how much I feel like, you know, I feel like I sometimes we are law enforcement, and I guess that's kind of the purpose of this. But we have no idea whatever happens once we file these things. And so just the cost of having it, every time there's a regulation, there's a cost. There's FTE, or part of an FTE to really comply with that. And, of course, we want to and have to comply and will comply. But there is a cost, and it obviously clearly impacts our ability to have the earnings in the CAMELS rating that we need to survive and get good scores.

NICOLE ELAM. Ditto, ditto, ditto. I would also say just the timing of the exams. You close it and it comes back up. And so, I just feel like, can you have a longer time between the examination periods? Particularly if your exam was good. Can you have more time? Because, again, and exams take up so much of the capacity of the bank. We're now at a time where there are 20 examiners, and there aren't even 20 people that work in that bank that are coming into the bank. And so, it's just, it's a lot, it's excessive. So, the examination periods. I would also say, let's narrow the focus. Study after study shows that there are six factors that lead to bank failures. Why not focus on those six factors? Why are there so many other things that we're doing and we're focusing on? And so, I think the idea of right sizing regulations, right sizing exams, and tiered reporting, I think would be good, based upon your asset size. Those are some of the big things that are coming to mind for, for me.

AUDIENCE. Interesting discussion today. This might be the first time that some folks online have heard about CDFIs and MDIs, maybe even some people in the room, something in consumers, small businesses. What sort of recommendations would you have for those audiences to engage more, you know, more deeply with CDFIs and MDIs? Thanks.

DARRIN WILLIAMS. I would take a phrase from Nike. Just do it. There's a CDFI or an MDI in many communities. And there are a ton of websites you can go and find one. I would encourage you to do it, you know, we provide similar services as large institutions with often a culturally competent community-focused touch, where we are, you know, really do care. To Greg's point, maybe a downside, but the folks at our bank, they grew up in and work in these communities. And, yes, the communities are not thriving like they did years ago, but they care deeply about the communities. And so, it only works if we have customers, and if people will work with us. So, I just suggest just do it, just reach out to a CDFI. I guarantee you they won't, or an MDI, guarantee you they won't turn you away.

NICOLE ELAM. Yeah, there's a number of lists. What I will say, I remember, it may have been like 2015, there was a huge push for people to bank with minority banks. And what happened was people went in there and they opened up a bank account and put $100 in it and that was it. That's not the kind of relationship that we would want. So, when you engage, engage intentionally. And it may not be you engaging as an individual. Maybe it is you engaging wearing your hat for your business, or your hat for your nonprofit, and directing greater deposits there. Maybe it's when the company that you work for, the nonprofit that you work for, or whoever, maybe it's saying, hey, have we thought about getting the loan from, you know, this particular MDI or CDFI? So, it doesn't have to be your individual hat, but we all have huge platforms of influence, if we sit and think about it, how are you leveraging that platform of influence.

GREGORY FAIRCHILD. Well, related to this issue of platform of influence, first, to Darrin's thing about knowing, you know, I'll never forget, I went and visited a CDFI in Ithaca, New York, Alternatives Credit Union. It's a pretty-long lending CDFI credit union. And I remember going and visiting. And I was in Ithaca for the weekend. I went to a farmer's market. And they had actually started this credit union through interacting with people in the community at the farmer's market. And I remember talking to a few of the folks that worked there, not worked there, I'm sorry, banked there, and I mentioned that it was a CDFI. And they had no idea what that was, or that it was a CDFI. They said, oh, I thought Alternatives was because they banked with the alternative people. Which was true. But that was not what was intended with the name of the institution. I find that a lot of times what people will know is what is in their backyard. And they know, again, that that is in their backyard. Whether it's a CDFI or not. They don't know. I think there is a little bit more learning they could do. The other thing that Nicole mentions, you know, working in a graduate business school for the years that I have, I find that most, 60percent of the students in top graduate schools are thinking about going into finance. Very few of them know of CDFIs, think of CDFIs. There have been movements that have occurred over the same time periods where people have talked about inclusive finance, and they've talked about ways that we could do value-based investing. And I would say from time to time, you know, there are like 1,500 of these things called CDFIs. And they exist right now. More often than not, highly educated people have no idea that CDFIs exist, or that they could be doing finance in those types of institutions. Certainly, at the consumer basis. But even institutional finance, even commercial finance, they have no idea that these institutions exist. And if talent is one of the things that the institutions have lacked, and I might argue they have, that in the war for the talent they come in, I don't think you all come to the mind of being the people who would otherwise be interested in working in finance.

DARRIN WILLIAMS. I totally agree with that, Greg. I will say that clearly the pandemic and other happenings have allowed us to, you know, not be just completely the best unkept, you know, best kept secret, but we struggle. But what I have found, at least here lately, is we've been able to attract some really talented people who we allow to work remotely. That's part of the issue. Because of our mission. So, in many ways, our mission, our purpose is our competitive advantage. I say all the time, no margin, no omission. But we've got to make money in what we do. But it's been positive. And what I would say is a couple years back, Harvard Business School did a case study on Southern. And I presented, going to the class a couple times. And Duke has picked up the case study. I guess we've got to get Dartmouth to pick it up as well, to pick up the case study. And each time I've gone, I do a little plug, in exchange for me joining them by Zoom, I do a plug in the class. Like, you know, CDFIs, MDIs exist. We need talent, the people, people in the room, please come and join us. And we have a few interns. But I think you're right. If we can get more talent, and how we can spread the word would be clearly helpful.

TESIA LEMELLE. And I know we're at time, but I just want to do a quick plug. If anyone is looking for foundational information, all three agencies do publish an annual report that does have definitional information, also has other stats. So, if you are interested in just, if you're at the beginning of your learning journey of these mission driven institutions, that's a great place to start.

DAVID NEWVILLE. I think that's a good place to end. We all have our homework. If you don't know your mission driven organizations in your community, look them up, supporting them in a meaningful way, make partnerships and connections and spread the word among your friends and family. So, please join me in thanking our fabulous panel. Yeah. [Applause]