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TESTIMONY OF
BEVERLY COLE
DEPUTY COMPTROLLER, NORTHEASTERN DISTRICT
OFFICE OF THE COMPTROLLER OF THE CURRENCY
before the
SUBCOMMITTEE ON CONSUMER PROTECTION AND
FINANCIAL INSTITUTIONS
COMMITTEE ON FINANCIAL SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES

November 20, 2019

Statement Required by 12 U.S.C. § 250:
The views expressed herein are those of the Office of the Comptroller of the Currency and do not necessarily represent the views of the President.
I. **Introduction**

Chairman Meeks, Ranking Member Luetkemeyer, and members of the Subcommittee, I am Beverly Cole, Deputy Comptroller for the Northeastern District and Designated Federal Officer (DFO) for the Office of the Comptroller of the Currency’s Minority Depository Institutions Advisory Committee (MDIAC). I also am responsible for coordinating activities across the OCC to promote the health and vitality of OCC-supervised minority depository institutions (MDI).

Thank you for the invitation to discuss the OCC’s activities to preserve and promote MDIs. The OCC supports the long-term health and preservation of MDIs, consistent with the agency’s mission of ensuring a safe and sound federal banking system and providing fair treatment and fair access to customers. Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) further sets forth goals to:

- Preserve the number of MDIs;
- Preserve the minority character of MDIs in cases of merger or acquisition;
- Promote and encourage the creation of new MDIs; and
- Provide training, technical assistance, and educational assistance to strengthen and maintain healthy MDIs.

Comptroller Otting and staff at every level of the agency work to achieve these goals. In his 34 years of experience as a banker, Comptroller Otting saw firsthand the invaluable contributions MDIs provide not only to the specific communities they serve, but also to the federal banking system overall. Under his leadership, the OCC has continued its commitment to providing resources and expertise to preserve minority ownership and to helping MDIs remain safe, sound, and capable of meeting the needs of their communities. My testimony today
describes the OCC’s supervisory approach to MDIs, as well as our engagement in a range of activities, including chartering a federal advisory committee, the members of which are MDI bankers and other bankers with an interest in assisting MDIs who provide advice to the OCC on MDI issues, facilitating industry collaboration, and providing educational and training opportunities to provide support to MDIs. My statement concludes with observations about draft legislation that would further support MDIs to continue to be vibrant members of their communities.

II. OCC Supervision of MDIs

The OCC charters, supervises, and regulates more than 1,200 national banks, federal savings associations, and federal branches of foreign banks (collectively, “banks”) which cover the entire range of asset sizes and business models. Our supervised banks range in size from very small community banks to the largest, most globally active U.S. banks. The vast majority of them have less than $1 billion in assets, while more than 60 have greater than $10 billion in assets. Together, they hold $12.7 trillion in assets — almost 70 percent of all the assets of commercial U.S. banks.

The OCC generally defines an MDI as any national bank or federal savings association that is at least 51 percent owned by minorities, women, or socially and economically disadvantaged individuals, and not a U.S. subsidiary of a foreign-owned bank. Of the total number of OCC supervised institutions today, 47\(^1\) are minority and women-owned, which account for about four percent of all national banks and federal savings associations.\(^2\) OCC-supervised MDIs are located in 19 states with combined assets of $17.1 billion. These banks

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\(^1\) Unlike other federal banking regulators, the OCC includes women-owned institutions in our MDI designation. Twelve of the 47 MDIs supervised by the OCC are women-owned.

\(^2\) There are 159 total banks classified as MDIs today; 97 are regulated by the Federal Deposit Insurance Corporation, 47 are regulated by the OCC and 15 are regulated by the Federal Reserve.
range in asset size from $46 million to over $2 billion, although more than 75 percent have assets of $500 million or less. MDIs regulated by the OCC are concentrated in California, Texas, and New York. Twenty of the MDIs supervised by the OCC are owned by Asian Americans or Pacific Islanders, seven are owned by Hispanic Americans, five are owned by African Americans, and three are Native American or Alaska Native-owned.

The U.S. banking system is composed of banks of different sizes and business models located in communities with diverse needs, with owners and management from many different backgrounds. The perspectives and values of bank owners and other stakeholders influence how institutions make decisions about bank leadership, strategy, new products, and target markets. MDIs frequently serve populations underserved by the mainstream banking sector, such as recent immigrants where there may be language and cultural challenges; in Indian country, which may be subject to banking deserts; and in the historically underserved urban and rural areas where many MDIs are located. Supervision of this diverse industry requires a framework broader than a one-size-fits-all approach. The OCC understands that MDIs are uniquely positioned to create positive change in these communities, and can do so in a safe and sound manner.

The agency’s regulatory approach for all banks includes enforcing compliance with federal fair lending and other consumer protection laws, as well as evaluating bank performance in meeting community credit needs pursuant to the Community Reinvestment Act (CRA). The OCC develops a supervisory strategy for each MDI that reflects these expectations, but also is tailored to the operations and specific risks facing each MDI. To ensure an examination team has familiarity with the issues and needs of MDIs, the OCC assigns knowledgeable assistant deputy comptrollers (ADC) and portfolio managers to these institutions. Further, when assigning examiners to MDIs, the OCC takes into account the expertise and background needed to properly
evaluate the products and services offered, and the markets and environments in which they operate. Periodically, the OCC holds meetings and information sharing sessions among ADCs and examiners to exchange information on the overall condition of MDIs and the initiatives OCC is supporting to assist MDIs. When questions or issues arise, ADCs can supplement their examination staff and draw upon a range of expertise to provide additional legal, accounting, compliance, capital markets and policy knowledge. We also strive to be an expert resource as MDIs consider continuing or expanding into new lines of business, products, and services. OCC managers and staff also meet with minority bank trade associations to stay informed of important topics and emerging concerns.

**Condition of the MDIs**

Today, the financial health of OCC-supervised MDIs is stable, but some continuing challenges remain. On average, MDIs are well capitalized, and have capital and leverage ratios consistent with the overall population of community banks. However, their average growth rate is significantly lower than that of all community banks, given the struggles some MDIs face in identifying quality growth opportunities to fully leverage their capital and generate greater earnings. They also have a modestly higher number of problem loans compared to the community bank average. As a group, MDIs continue to have higher operating costs than community banks as a whole. Despite this period of expansion since the financial crisis, several MDIs continue to be challenged in maximizing their earnings potential and achieving solid profitability.

While the OCC proactively supervises every institution facing financial difficulty or hardship, sometimes circumstances ultimately lead to a bank’s failure. In all failing bank cases, the OCC collaborates with the FDIC to ensure an orderly resolution to avoid an adverse impact
on the bank’s customers and community. To help preserve MDIs, OCC supports the FDIC’s recent announcement to provide a two-week period for MDIs to exclusively conduct due diligence on other MDIs that are in need of a resolution before allowing non-MDI banks to bid to acquire a failing institution.³

III. OCC Actions to Preserve and Promote MDIs

In addition to technical assistance provided through the supervisory process, the OCC has undertaken a number of special initiatives to preserve and promote MDIs. These activities have included the creation of the MDIAC, a collaboration initiative, and training and outreach opportunities provided outside of the supervisory process.

Minority Depository Institution Advisory Committee

In 2012, the OCC chartered its MDIAC, in accordance with the Federal Advisory Committee Act.⁴ The MDIAC was created to provide advice to the OCC on meeting the goals established in section 308 of FIRREA, and to provide commentary to the OCC about MDI supervision. The agency achieves these goals by convening meetings and discussions about the current condition of MDIs and regulatory changes or other steps the OCC may be able to take to continue to meet the goals in section 308 of FIRREA. The MDIAC also has regular dialogue on issues of concern to OCC-supervised MDIs and has served as a sounding board for OCC initiatives to provide technical assistance and training to MDIs. The members of the MDIAC serve two-year terms and include representatives from MDIs, large, and midsize banks. The

⁴ In 2008, the Office of Thrift Supervision (OTS) established a Minority Depository Institutions Advisory Committee for minority savings associations. Pursuant to Title III of the Dodd-Frank Wall Street Reform and Consumer Protection Act, all functions related to the OTS relating to federal savings associations were transferred to the OCC. In 2012, after the transfer of functions from the OTS to the OCC and the abolishment of the OTS, the OCC chartered the MDIAC, which includes national bank and federal savings association MDIs as members.
committee meets two to three times per year. The current membership was approved in 2019, and our most recent meeting was held in September.⁵

Comptroller Otting attends MDIAC meetings and facilitates a roundtable discussion to engage with the members about specific topics of interest. The Comptroller also shares his priorities and provides updates on current OCC activities. These roundtable discussions are fruitful and focus on obtaining feedback from MDIs on topics of concern to them as well as providing context for OCC decisions with opportunities to provide feedback.

**OCC Collaboration Initiative**

In 2015, the OCC issued a paper titled “An Opportunity for Community Banks: Working Together Collaboratively.”⁶ Following the financial crisis, community banks were challenged with limited business opportunities, increasing compliance requirements, technological change, and competition from larger bank and non-bank competitors. This paper highlighted the benefits of bank partnerships for pooling or sharing resources to reduce costs, achieve economies of scale, and leverage specialized expertise to serve customers and communities, particularly those in minority and low- to moderate-income communities. This paper provided a backdrop for OCC’s dedicated efforts to support MDI collaborations.

In April 2016, the OCC hosted its first collaboration event in Washington, D.C. which included a select group of OCC-supervised MDIs and mid-sized banks to facilitate relationship building and information sharing among participants. This meeting generated considerable interest and resulted in positive feedback, including the suggestion to hold meetings regionally. Since then, we have hosted 12 regional collaboration roundtables in Washington, D.C., Los

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Angeles, Dallas, New York City, Miami and Chicago – locations that are central or convenient to where the majority of OCC-supervised MDIs are located. By collaborating with each other and with larger institutions, the MDIs can access expertise, technology, and financial services and products that they may not be able to access on their own. Such collaboration also can help MDIs diversify their loan portfolios by providing opportunities for selling participations in loans to other institutions, or in turn purchasing loans or loan participations from other institutions, which can provide the MDI access to good, quality-earning assets. MDIs often seek loan participations so they can work with their customers on larger transactions, improve liquidity, access performing assets, and reduce concentration risks.

To date, the most common area of collaboration has involved MDIs receiving deposits from larger institutions which provide a stable funding source. Most attendees of the roundtables have reported new deposit relationships as a result of the dialogue. Other collaborations have resulted in equity investments into MDIs and technical assistance in a variety of forms including training, support for new product development, and assistance with Bank Secrecy Act/Anti-Money Laundering (BSA/AML) and other compliance programs. The larger banks report business benefits from these transactions, as well as the receipt of CRA consideration. The OCC has been very deliberate in communicating that the primary focus of these engagements is to build longstanding, mutually beneficial business relationships. We have found that successful collaborations are based on a sense of mutual trust, from which more sustainable and beneficial partnerships emerge. These collaborations also may provide a secondary benefit by providing positive CRA consideration in performance evaluations for banks that engage in certain qualifying types of deposit, lending or investment activity with MDIs. Positive CRA consideration provides an additional incentive for banks to engage with MDIs.
In May 2018, the OCC published a Community Development Investments article on “Profitable Partnerships: Collaborating with Minority Depository Institutions,” which highlighted two examples of collaborations. In 2016, Citibank extended use of its nationwide ATM network to customers of MDIs free of charge. Together, the MDIs and other institutions in the Citibank ATM community network serve more than 400,000 customers, many of whom live in low- to moderate-income and majority-minority neighborhoods. Texas Capital Bank also took on an early leadership role and initiated collaborations to provide correspondent banking services with several MDIs and community development financial institutions (CDFI) that provide new business and consumer relationships in culturally diverse and low- to-moderate income communities across the nation. Texas Capital Bank has also mentored other banks looking to initiate additional collaborative activities.

By organizing and hosting these roundtable discussions, the OCC has taken a leadership role in promoting collaborations. The meetings are designed to help the bankers develop professional relationships with each other, and to understand each bank’s needs and opportunities for collaboration. The banks share their successes and discuss the practices that helped them to be successful. The banks also are able to identify pain points in the process, including perceived regulatory barriers to success.

OCC has sought to bring attention to these successful collaborations to spur awareness among both MDI and other community, midsize, and large banks about how they can continue to find opportunities to collaborate. The OCC developed a fact sheet titled “Partnerships with Minority- and Women-Owned Financial Institutions, Low-Income Credit Unions.” which

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publicized some of the ways banks can partner with MDIs to serve bank customers, jointly develop new products and services, share back-office operations and expertise to reduce operating or compliance costs, and jointly purchase goods and services at more efficient costs. Also, this year, the OCC provided details about its collaboration roundtable program to the FDIC in order to provide assistance to the FDIC as it prepared its own collaboration roundtable initiative. The OCC is currently evaluating our collaboration initiative as part of our planning effort for 2020 activities.

*Training, Technical Assistance, and Educational Programs*

In addition to regularly providing technical assistance to banks during the supervisory and examination process, the OCC also considers topical issues about which additional training or assistance could be valuable. These efforts have included providing training to help MDIs improve overall asset quality and strengthen capital levels, as well as providing assistance on loan administration, liquidity, interest rate risk management, and capital growth through earnings retention.

In conjunction with our collaboration roundtables, the OCC also has provided technical assistance and training sessions on issues such as cybersecurity, strategic planning, and BSA/AML compliance. Based on the success of these training sessions, the OCC offered the training to other banks, and also translated the material to webinars to reach broad audiences. Further, our district community affairs officers have provided training on issues related to the CRA and community development.

The OCC also encourages MDI directors to attend our bank director workshop training sessions to help them fulfill their fiduciary responsibilities. MDI directors are integral to the long-term health and viability of community banks, and we are committed to providing a support
structure that recognizes and responds to the importance of their responsibilities. To encourage the attendance of MDI directors, the OCC waives their registration fee for these workshops. In 2019, the OCC held director workshops in locations across the country on risk governance, credit risk, compliance risk, and operational risk, and a significant number of MDI directors attended.

In 2018, the OCC developed and delivered workshops for MDIs on small business lending and innovation in the industry. In addition, our External Outreach and Minority Affairs staff participated in discussions with the National Bankers Association and other federal regulators including the Small Business Administration and Minority Business Development Agency, to discuss small business partnership opportunities with non-minority financial institutions and private sector entities. These meetings provided the OCC additional opportunities to hear suggestions from MDI bankers about issues affecting their operations and provided MDI bankers with additional information on banking trends and issues.

The OCC also actively participates as an exhibitor and speaker in national and state banking conventions. As well, the OCC participates in events sponsored by minority trade associations, which are typically attended by a significant number of MDI representatives. Every two years, the OCC, in conjunction with the FDIC and Federal Reserve Board, hosts an interagency conference for MDI and CDFI banks to provide opportunities to interface with regulators and bankers on key topics and to help promote and preserve the MDI mission. In 2019, the conference was hosted by the FDIC at the Seidman Center in the Washington, D.C. area. Senior OCC staff participated in discussions on supervisory issues, cybersecurity, innovation, collaboration, and other relevant topics. Panels discussed how to access and use various federal programs, and included peer discussions on how MDIs found solutions to
common problems. The OCC led a panel discussion highlighting successful MDI collaboration initiatives. The OCC will host the next interagency MDI conference in 2021.

IV. Ensuring Diversity in Community Banking Act of 2019

The OCC has reviewed the draft bill, “Ensuring Diversity in Community Banking Act of 2019,” authored by Chairman Meeks. We applaud Chairman Meeks for including such a breadth of ideas in this legislation to support MDIs and address some of the challenges that they face in serving their communities. The OCC is pleased to see the requirement in the bill that all the federal banking agencies and the NCUA establish a Minority Depository Institutions Advisory Committee. As mentioned previously, the OCC’s MDIAC has been in place since 2012, and it is a valuable source of regular dialogue, robust and candid discussion, and insights that has resulted in enhancements to our MDI supervision. As well, Comptroller Otting has long believed that consumers need access to a greater choice of lenders to meet their short-term, small-dollar credit needs. The agency was pleased to see bill language supporting the issuance of responsible small dollar loans to low-to-moderate income consumers as a low-cost alternative to payday loans and other non-traditional sources of financing. Such loans can assist in meeting consumer needs, as well as extending the reach of MDIs or other rural institutions into underserved markets. Finally, the bill builds upon various programs that currently exist, such as the Treasury mentor-protégé program, and considers incentives for institutions to participate in them.

We recognize that one of the most critical challenges MDIs face is their ability to raise capital, and the bill includes language to help address this need. The OCC would like to work with the Subcommittee to discuss additional ways that this challenge could be addressed in the legislation. The agency also has some technical suggestions to make, such as including “women-
owned institutions” in the programs that are provided to MDIs in the bill. We look forward to working with the Subcommittee on the draft bill as it proceeds through the legislative process.

V. Conclusion

MDIs are an important part of the federal banking system. The OCC is engaged in several initiatives to support the health and vitality of the MDIs that we supervise. From our efforts to provide expert supervision to these institutions to our collaboration initiative and our continual training, technical assistance, and educational programs, the agency is committed to supporting the long-term health and vitality of these important institutions.