

“Reimagining Mission-Oriented Banking”

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Thank you, Saurabh for that kind introduction. And thank you for hosting this important conference to highlight the critical role that the mission-driven banking industry plays in our financial system. More important, I commend you for bringing us all together to imagine the possibilities for these institutions and their communities, to explore the tools and resources for how we can all work together to achieve that imagined future.

Introduction: The Role of Mission-Driven Banks

The FDIC is the nation’s deposit insurer and primary supervisor of community banks, including minority depository institutions (MDIs) and Community Development Financial Institutions (CDFIs). We are cognizant, therefore, of the important role the FDIC plays in helping these institutions meet the needs of their customers and communities.¹ In the midst of a pandemic that continues to disrupt the daily lives of all Americans, we are particularly mindful of the disproportionate economic and health challenges that minority and low- and moderate-income (LMI) communities have borne.

A significant part of my focus as FDIC Chairman has been bridging the gap between those who belong and those who do not. Creating an inclusive financial system is a personal mission for me, and rooted in my own experiences as an immigrant to this country, and as someone who understands firsthand the perspective of those who cannot make ends meet despite holding multiple jobs, who cannot qualify for credit, and who watch their checking account balance with daily trepidation.

Because the FDIC is a bank regulatory agency, we have approached the issue of bridging this gap of belonging from the perspective of financial services. Despite meaningful improvements in recent years in reaching the “last mile” of unbanked households in this country, we know that much remains to be done. The rates for Black and Hispanic households who do not have a checking or savings account at a bank remain substantially higher than the overall “unbanked” rate.² Similarly, Black and Hispanic households are less likely to have mainstream credit (i.e., credit products that are likely reported to credit bureaus) across all income levels.³ Savings rates remain lower among these households,⁴ which results in greater difficulty dealing with unexpected expenses.⁵

These disparities pose challenges to regulators and other policymakers about how best to address them. At the FDIC, we have recently launched a public awareness campaign, #GetBanked, to inform consumers about the benefits of developing a relationship with a bank. Having a basic checking account can be an important first step to becoming part of the financial fabric of this country and we are pleased that an increasing number of banks are offering accounts that work for people with limited means.

While we recognize there is no single solution to address disparities in our financial system, we know that MDIs and CDFIs are anchor institutions in their communities. We can help empower these institutions with capital, technology, innovation, while promoting their stories. Together, we can play an important role in building wealth and opportunity in their communities.

Empowering through Capital

One of my priorities as FDIC Chairman has been expanding our engagement and collaboration in support of MDIs as part of a broader commitment to increasing financial inclusion in underserved communities. An MDI is often the financial lifeblood of the community it serves, providing individuals and minority-owned small businesses a secure way to build savings and to obtain credit.⁶ MDIs have a substantial impact on their communities, including through mortgage lending and small business lending.⁷ Similarly, CDFIs, with their commitment to channeling at least 60 percent of total lending, services, and other activities to benefit low-income communities, are critical to serving LMI, minority, and rural populations.

As the events of 2020 unfolded, corporations, philanthropic organizations, large banks, and others made significant commitments to working to build wealth and opportunity in underserved communities, including through MDIs and CDFIs. With capital commitments totaling in the billions of dollars, these institutions are on the threshold of building capacity and sustainability to position them to transform their communities.⁸

At the FDIC, we are also thinking outside the box when it comes to facilitating capital investments in mission-driven banks. We are facilitating the stand-up of the Mission-Driven Bank Fund⁹ that will channel investors' funds to make investments in MDIs and CDFIs, through a variety of asset classes. We have engaged a financial advisor and two law firms to develop the framework, structure, and concept of operations for this fund. The FDIC benefited from having approximately 70 MDI and CDFI bank executives provide input during the fund development phase, and we also have worked to obtain feedback from anchor investors and prospective corporate and philanthropic investors. While the FDIC is helping to build the framework for the fund, it will not manage the fund, contribute capital to the fund, or be involved in the fund's investment decisions. Our goal is for the anchor investors to hire a fund manager in the second quarter, conduct a fundraising round, and be prepared for the fund to accept pitches from MDIs and CDFIs in the third quarter.

I would like to pause for a moment here to take a brief walk down memory lane. The idea of this fund came to me literally on a flight somewhere over the United States as I was flipping through TV channels on the small monitor mounted on the back of the seat in front of me. I came across a successful television show—whose name, our lawyers tell me, I am not supposed to mention—in which entrepreneurs present their business ideas to a group of potential investors. And I thought to myself: “Why can’t we do something similar for our MDIs?” As soon as I landed, I called my chief of staff and said: “What if we could create a bank fund to help MDIs, like that *not-to-be-named* TV show?” Initially, this idea was met with raised eyebrows at the FDIC—not because we did not want to do this, but because we have never done it! In fact, no regulatory agency has done something even remotely similar. After many hours of deliberation

that included a thorough review of the FDIC's statutory authorities, here we are . . . just about to unveil the Mission-Driven Bank Fund.

The reason I bring up this story is to illustrate a point that is not always apparent: to change the status quo in our nation's longstanding battle to help low- and moderate-income communities prosper, we—public and private sector entities alike—will have to think outside the box. The FDIC did . . . in more ways than one.

One of our objectives in setting up the Mission-Driven Bank Fund was to create the opportunity for MDIs and CDFIs to make pitches for funding tailored to their business models, strategic plans, and vision for building the future. We also are incorporating a feature for the fund manager to make available advisory services including strategic, financial, operations, and technology consulting support to complement the capital investments provided by the fund. We hope that the Mission-Driven Bank Fund, along with many other capital commitments from the private sector and the U.S. Treasury's Emergency Capital Investment Program,¹⁰ will help provide an opportunity for communities in need.

Empowering Through Innovation

In addition to helping empower MDIs through capital, we are working to draw from the tremendous benefits that financial innovation can deliver to consumers. Perhaps no issue is more consequential to the future of community banking than technological innovation. The challenges of the past year have forced us to rethink that old idiom that necessity is the mother of invention. We had to adjust everyday activities—from how we work to how we procure food—to protect ourselves and those around us. That rapid transformation amplified how critical innovation is not only to our survival but also to empowering people's lives amidst a global calamity.

Fostering innovation has been a top priority of the FDIC during my tenure, and has been underscored by the experience of the past year. Early in my tenure at the FDIC, we established a new Office of Innovation—FDiTech—to promote innovation at the agency and across the banking sector.¹¹ Our first Chief Innovation Officer, Sultan Meghji, has hit the ground running, and is engaging with banks, fintechs, and other stakeholders.¹² I am thrilled that you will be able to meet Sultan virtually later this week.

We are focused on promoting innovation under four broad themes: *Inclusion, Resilience, Amplification, and Protecting the Future*.

- First, we are working toward an *inclusive* banking system—one that is accessible to all Americans.
- Second, the American banking system is the strongest, most *resilient* in the world, and we must take action to ensure that continues to be true throughout the 21st Century.
- Third, we want to *amplify* the work of FDIC staff, bank compliance staff, and other stakeholders through technology, so that their efforts are not hindered by outdated or inadequate technology.

- Finally, new banking products and services are emerging on a daily basis and we want to reframe how we think about the world. We should build a system for ten years in the future, not a system based on the technology of the last ten years.

We are looking at the full spectrum of issues, including analytics, artificial intelligence, digital assets, quantum computing, and more. We are conducting our own research programs, as well as soliciting feedback from the public through traditional requests for information (RFIs) and briefings from innovators. Let me provide a few more specific examples of what we are achieving to move forward financial innovation, including with respect to alternative data, artificial intelligence, rapid prototyping, and partnerships with fintechs.

Alternative Data

We are considering how to encourage the responsible use of alternative data by financial institutions. Alternative data is information not typically found in a consumer's credit files at the nationwide consumer reporting agencies nor customarily provided as part of applications for credit. Using alternative data can improve the speed and accuracy of credit decisions and help firms evaluate the creditworthiness of consumers who might not otherwise have access to credit in the mainstream credit system. The FDIC and our fellow regulators issued guidance in December 2019 to encourage the responsible use of alternative data, and this is an area we continue to explore.¹³

Artificial Intelligence

In March, alongside our fellow regulators, we issued an interagency RFI on financial institutions' use of artificial intelligence (AI).¹⁴ AI can offer a range of benefits for banks, consumers, and businesses, such as expanding credit access through innovative use of data and faster underwriting. As we receive and review comments to the RFI, we will be particularly interested in feedback on how financial institutions use AI, and whether additional regulatory clarity would be helpful.

Alternative data and AI can be especially important for small businesses, such as sole proprietorships and smaller companies owned by women and minorities. Such businesses often do not have a long credit history, which is why novel measures of creditworthiness, like income streams, can provide critical access to capital, particularly in difficult times.

Rapid Prototyping

Another example of our work is our announcement last year of a rapid prototyping competition, a type of tech sprint. More than 30 technology firms were invited to participate in this competition to develop a new and innovative approach to financial reporting, particularly for community banks.¹⁵ We have narrowed down the competition to 11 vendors as part of phase 3,¹⁶ and we expect the process to pave the way for more seamless and timely reporting of more granular data in the future for banks that voluntarily choose to participate.

Partnerships with Fintechs

We have also been working on several initiatives to facilitate partnerships between fintechs and banks that can allow banks to reach new customers and offer new products. I will briefly discuss two examples.

At the end of 2020, the FDIC updated our brokered deposits regulations, the first substantial update in approximately thirty years, removing regulatory hurdles to certain types of innovative partnerships between banks and fintechs.¹⁷ The law imposing restrictions on brokered deposits was passed in 1989, prior to the adoption of the internet, when people interacted with their banks by walking into a local branch. Today, people interact with their banks through a variety of channels, including in some instances through third-party fintechs that look very different from the traditional deposit brokers of the 1980s. Our modernized framework excludes many of these types of partnerships from the brokered deposit definition, while still including the types of deposit brokers the law was intended to cover.

In addition, last year we asked stakeholders to comment on a groundbreaking approach to facilitate technology partnerships. Our RFI proposed a public/private standard-setting organization, or “SSO,” to establish standards for due diligence of vendors and for the technologies they develop.¹⁸ This voluntary certification program would help reduce the cost and uncertainty associated with the introduction of new technology at financial institutions. Standardizing the due diligence process and removing regulatory and operational uncertainty surrounding technologies could fundamentally change the way banks partner with technology firms. We received many supportive comments in response to the RFI and continue to pursue the concept actively.¹⁹

Empowering Through Storytelling

Innovation does not necessarily require an elaborate skillset and new technology to implement. Sometimes, simple storytelling changes how we think—and how we feel—and inspires us to action. Throughout my tenure, I have met and engaged with the leaders of MDIs and CDFIs to understand their challenges and discuss opportunities.

I have heard from rural and urban mission-driven bankers that have fewer resources, size, and capacity, and from those who have continuously served their communities for over 100 years through difficult circumstances. I have heard stories about institutions serving newly arrived immigrant communities that faced financial, cultural, and language barriers to pursuing the American dream. These stories have the power to shape, strengthen, and challenge our own opinions, and I believe that institutions large and small can learn from these bankers who have served their communities through significant economic and financial challenges over time. Through my engagement with mission-driven bankers—including those on the MDI Subcommittee to the FDIC’s Advisory Committee on Community Banking²⁰—I have learned that mission-driven bankers are at the heart of transforming their communities. And I am committed to facilitating the telling of their stories and the critical role they play in serving their communities. I believe that our research on mission-driven banks and our advocacy efforts—whether through speeches, testimony, videos, or podcasts, or sharing “origin stories”—can be

helpful in raising awareness among policy makers and the public on the role of the mission-driven banking sector. We will continue to highlight these stories.

Conclusion

As we look forward to this week's conference events, we will keep focusing intensely on the work ahead to build a more prosperous and inclusive future for communities in need. The work of many participating in this conference builds upon generations of leaders who have laid the foundation through mission-driven banks. I am optimistic and confident that these efforts, amplified by innovation and new technologies being developed in banking and financial services, will build an inclusive banking system for all Americans. I refuse to believe otherwise.

¹Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) sets forth several statutory goals for the FDIC and other financial regulators, including: (1) preserve the number of MDIs, (2) preserve the minority character in cases involving merger or acquisition of an MDI; (3) provide technical assistance to prevent insolvency of institutions not now insolvent; (4) promote and encourage creation of new MDIs; and (5) provide for training, technical assistance, and educational programs.

²See How America Banks: Household Use of Banking and Financial Services, 2019 FDIC Survey, available at <https://www.fdic.gov/analysis/household-survey/2019report.pdf> (PDF). In 2019, 5.4 percent of U.S. households were "unbanked," meaning that no one in the household had a checking or savings account. By comparison, 13.8 percent of Black households were unbanked and 12.2 percent of Hispanic households were unbanked.

³See 2017 FDIC National Survey of Unbanked and Underbanked Households, at 10, available at <https://www.fdic.gov/householdsurvey/2017/2017report.pdf> (PDF). In 2017, while 19.7 percent of U.S. households had no mainstream credit in the past 12 months, 36 percent of Black households and 31.5 percent of Hispanic households had no mainstream credit. Data from the 2019 FDIC survey shows that Black households and Hispanic households were less likely to use bank credit. See 2019 FDIC Survey, *supra* note 1, at 8.

⁴See *id.* at 44; 2019 FDIC Survey, *supra* note 1, at 52.

⁵See Board of Governors of the Federal Reserve System, Report on the Economic Well-Being of U.S. Households in 2019, Featuring Supplemental Data from April 2020 (May 2020), available at <https://www.federalreserve.gov/publications/files/2019-report-economic-well-being-us-households-202005.pdf> (PDF).

⁶See, e.g., James Barth, Aron Betru, Matthew Brigida, and Christopher Lee, Minority-Owned Depository Institutions: A Market Overview , Milken Institute (July 2018), available at <https://milkeninstitute.org/sites/default/files/reports-pdf/MDIs-A-Market-Overview.2018.FINAL.pdf> (PDF).

⁷See FDIC, Minority Depository Institutions: Structure, Performance, and Social Impact (2019), available at <https://www.fdic.gov/regulations/resources/minority/2019-mdi-study/full.pdf> (PDF).

⁸See FDIC, Minority Depository Institutions Program, Investing in the Future of Mission-Driven Banks, available at <https://www.fdic.gov/regulations/resources/minority/mission-driven/index.html>.

⁹See FDIC, Investing in Banks That Support Communities in Need, available at <https://www.fdic.gov/regulations/resources/minority/mission-driven/infographic.pdf> (PDF); see also FDIC, Minority Depository Institutions Program, Investing in the Future of Mission-Driven Banks, available at <https://www.fdic.gov/regulations/resources/minority/mission-driven/index.html>.

¹⁰See U.S. Department of the Treasury, Emergency Capital Investment Program, at <https://home.treasury.gov/policy-issues/cares/emergency-capital-investment-program>.

¹¹See “The Future of Banking,” keynote remarks by FDIC Chairman Jelena McWilliams at The Federal Reserve Bank of St. Louis, October 1, 2019, available at <https://www.fdic.gov/news/speeches/2019/spoct0119.html>.

¹²See “FDIC Appoints First Chief Innovation Officer,” February 16, 2021, available at <https://www.fdic.gov/news/press-releases/2021/pr21009.html>.

¹³See Financial Institution Letter FIL-82-2019, “Interagency Statement on the Use of Alternative Data in Credit Underwriting,” December 13, 2019, available at <https://www.fdic.gov/news/financial-institution-letters/2019/fil19082.html>.

¹⁴See Request for Information and Comment on Financial Institutions’ Use of Artificial Intelligence, Including Machine Learning, 86 Fed. Reg. 16837 (March 31, 2021), <https://www.govinfo.gov/content/pkg/FR-2021-03-31/pdf/2021-06607.pdf> (PDF).

¹⁵See “FDIC Launches Competition to Modernize Bank Financial Reporting,” June 30, 2020, available at <https://www.fdic.gov/news/press-releases/2020/pr20079.html>.

¹⁶See “FDIC Selects 11 Companies to Compete in Final Phase of Tech Sprint,” January 11, 2021, available at <https://www.fdic.gov/news/press-releases/2021/pr21004.html>.

¹⁷See Unsafe and Unsound Banking Practices: Brokered Deposits and Interest Rate Restrictions, 86 Fed. Reg., 6742, January 22, 2021, available at <https://www.fdic.gov/news/board/2020/2020-12-15-notice-dis-a-fr.pdf> (PDF); “Brokered Deposits in the Fintech Age,” keynote remarks by FDIC Chairman Jelena McWilliams at Brookings Institution, December 11, 2019, available at <https://www.fdic.gov/news/speeches/spdec1119.pdf> (PDF).

¹⁸See “FDIC Seeks Input on Voluntary Certification Program to Promote New Technologies,” July 20, 2020, available at <https://www.fdic.gov/news/press-releases/2020/pr20083.html>.

¹⁹Comments received in response to the RFI are available at <https://www.fdic.gov/regulations/laws/federal/2020/2020-request-for-info-standard-setting-3064-za18.html>.

²⁰See FDIC, MDI Subcommittee to FDIC's Advisory Committee on Community Banking, available at <https://www.fdic.gov/regulations/resources/minority/subcommittee/index.html>.