U.S. Department of the Treasury

Minority Depository Institutions
2013 Report to Congress

Supporting and Preserving Minority Depository Institutions

Minority Depository Institutions (MDIs)[1] play a critical role in their local community, especially in areas that traditionally have been underserved by the banking industry[2]. By statute, the Secretary of the Treasury must submit an annual report to Congress describing actions taken to support and preserve MDIs[3]. This report details those efforts. In recognition of the vital services and products they provide, the Treasury Department supports MDIs through many different actions, including funding opportunities, technical assistance, and training. This report details these efforts. Among the highlights:

- Treasury's financial crisis response programs supported dozens of MDIs over the last few years by providing them with additional capital.
    - Through Treasury's **Capital Purchase Program (CPP)**, the federal government invested approximately $2.1 billion in 37 MDIs during the crisis. Most of those funds have since been repaid, with interest as those institutions regained their financial footing. Only 10 MDIs remain in the CPP program.
    - To provide additional support to lenders serving neighborhoods hit hardest by the recession, Treasury included 11 MDIs in its **Community Development Capital Initiative (CDCI)**, which allowed them to convert their CPP investments into securities offering more favorable dividend rate and repayment terms.
- Treasury's **Community Development Financial Institutions Fund (CDFI Fund)** has provided extensive support to MDIs through a number of different financial and technical assistance programs.
    - In FY 2013, Treasury's CDFI Fund awarded financial assistance of almost $2.8 million to three MDIs that qualify as Community Development Financial Institutions (CDFIs). This support has helped to increase lending and improve access to capital in low-income communities that need it most.
    - Treasury's CDFI Fund awarded financial assistance to 19 MDIs that participated in the Bank Enterprise Award Program (BEA).
    - Treasury's CDFI Fund's Capacity Building Initiative provides critical technical assistance, and a new program launched in July 2013 will provide qualified MDIs

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[1] An MDI is any federally insured depository institution where 51 percent or more of the voting stock is owned by minority individuals. FDIC Policy Statement Regarding Minority Depository Institutions. Minority, as defined by Section 308 of FIRREA, means any "Black American, Asian American, Hispanic American, or Native American." For the purposes of this report depository institutions refer only to banks and thrifts.

[2] Today, there are 178 MDIs in the United States, or roughly 2.5 percent of the nation's 6,891 banks. FDIC Minority Depository Institutions Program Report Third Quarter 2013: http://www.fdic.gov/regulations/resources/minority/MDI.html

[3] This report addresses Section 367 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (12 U.S.C. § 1463) and Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (12 U.S.C. § 1833A).

with access to free training workshops, webinars, and other educational briefings tailored to their unique needs.

  - Treasury's CDFI Fund's Study on Access to Capital and Credit in Native Communities, launched this year, will examine Native American and Alaskan Native communities' access to capital and credit. The study will provide detailed analysis and quantitative research that can lead to actionable recommendations for improving access to capital and credit in Native Communities.

- Treasury has provided additional assistance to MDIs serving small businesses in their communities through two programs designed to encourage lending so that companies can hire, invest, and expand.

  - Treasury's **State Small Business Credit Initiative (SSBCI)** programs have supported at least 12 MDIs, located in California, Michigan, and Indiana as well as the U.S. Territories of Puerto Rico and Guam. With assistance from Treasury's SSBCI programs, MDIs have supported approximately $25 million worth of lending to 97 small businesses through 2012.

  - Treasury's **Small Business Lending Fund (SBLF)** provided MDIs with approximately $4 million in capital in order to encourage small business lending in their local communities.

Treasury recognizes that many MDIs continue to face challenges in identifying alternative sources of capital, forming new partnerships with other institutions, and expanding capacity. Therefore, Treasury will continue to work with MDIs to address these and other issues and support their critical role to help sustain economic growth and opportunity.

I. Office of Financial Stability (OFS) Programs[4]

Capital Purchase Program Overview

Through the CPP, which was introduced under TARP to stabilize the financial system, Treasury invested in 37 MDIs totaling $2.1 billion. These funds were not given as grants, so Treasury received preferred stock or debt securities in exchange for these investments. CPP provided capital to viable financial institutions of all sizes throughout the nation, which was used to absorb losses and restart the flow of credit to businesses and consumers.

Under this voluntary program, Treasury provided capital to 707 financial institutions in 48 states, including more than 450 small and community banks and 22 certified CDFIs. All told, Treasury invested more than $205 billion, with the government receiving preferred stock or debt securities in exchange for the additional funds.

In accordance with the program, CPP participants typically pay Treasury a five percent dividend on preferred shares for the first five years and a nine percent rate thereafter. In addition, Treasury received warrants to purchase common shares or other securities from the banks at the time of the CPP investment so that taxpayers could reap additional returns as the banks recover.

OFS' authority to make new financial commitments under the TARP ended on October 3, 2010. To date, taxpayers have recouped $224.5 billion on the funds disbursed through CPP.

Community Development Capital Initiative Program Overview

In addition, Treasury created the CDCI in February 2010 in order to support certain CDFI banks, thrifts, and credit unions whose mission is focused on providing financial services to low- and moderate-income, minority, and other underserved communities. Similar to CPP, Treasury received securities in exchange for these investments. The initial dividend or interest rate for CDCI investments was lower (2 percent) than for CPP investments, with the dividend rate increase scheduled to occur after a longer period of time (8 years). CDFIs that participated in the CPP and were in good standing were allowed to exchange securities issued under CPP for securities under the more favorable terms of this program.

Treasury completed funding through this program in September 2010. All told, Treasury invested approximately $570 million in 84 institutions, with 28 banks using the funds to exchange the investments made under the CPP into the CDCI.

[4] The OFS manages the Troubled Asset Relief Program (TARP), which was established by the Emergency Economic Stabilization Act of 2008 in response to the financial crisis.

CPP and CDCI Investments Supporting Minority Depository Institutions

Treasury supported 11 MDIs through the Program CDCI. All of these financial institutions exchanged their CPP investments, equivalent to $88.6 million, into the CDCI program, lowering their dividend rate and extending the timetable for repayment. All MDI participants in the CDCI remain in the program.

In May of 2012, Treasury outlined its strategy for unwinding the CPP program through a combination of repayments, restructurings, and dispositions. Although there is still more work ahead, Treasury has seen 16 MDIs successfully exit the CPP program. Just 10 MDIs remain in the program, holding TARP funds equivalent to $1.04 billion dollars in par value. All eleven of the original CDCI MDI participants remain in the CDCI program.

Engaging Minority-owned Financial Institutions to Help Administer TARP

Granted by Congress nearly 150 years ago by the National Bank Acts of 1863 and 1864, Treasury holds financial agent authority allowing it to designate financial institutions to provide certain services on the government's behalf. These firms act on behalf of the government during the performance of their duties under an agent-principal relationship with Treasury. Financial agents also have the fiduciary obligation to protect the interests of the United States. As an extension of the Department's longstanding commitment to encouraging diversity in all business activities, Treasury engaged minority-owned and women-owned financial firms to administer the TARP programs.

Indeed, Treasury's analysis of TARP transactions shows a higher percentage of fees allocated to Small, Minority & Woman-Owned Business (SMWOB) than the industry norm. Treasury's analysis shows that on TARP common stock dispositions, SMWOBs received 5.6 percent of associated fees on a weighted average. This compares to analysis that shows that SMWOBs have received less than 1 percent of fees for non-TARP equity transactions in excess of $5 billion since 2008. In January 2013, Treasury began the process of selling its shares of General Motors (GM) common stock into the market under a prearranged written trading plan. Treasury encouraged the participation of smaller broker-dealers, including minority- and women-owned broker-dealers, in the sale of Treasury's remaining GM common shares pursuant to the plan. In February, Treasury's brokers for GM stock sales informed Treasury that they had engaged six smaller broker-dealers, including minority- and women-owned broker-dealers, to assist with Treasury's sales of its GM common stock.

Treasury will continue to engage minority-owned businesses in the administration of TARP programs as they are wound down.

II. Office of Financial Institutions Programs[5]

CDFI Fund Overview

MDIs have taken advantage of Treasury's CDFI Fund, which aims to increase economic opportunity and promote community development investments for underserved populations and in distressed communities in the United States. The CDFI Fund administers the Community Development Financial Institutions Program (CDFI Program), the New Markets Tax Credit Program (NMTC Program), the Native American CDFI Assistance Program (NACA Program), the Capital Magnet Fund, the Financial Education & Counseling Pilot Program, the Capacity Building Initiative, the BEA Program, and the CDFI Bond Guarantee Program.

The CDFI Fund understands the unique challenges facing MDIs and recognizes the critical role that these institutions play in low-income and under-served communities. This report provides a description of the CDFI Fund's support of MDIs through the BEA Program, CDFI Program, NACA Program, and the Capacity Building Initiative.

CDFI Fund Initiatives Supporting Minority Depository Institutions

In addition to financial assistance the CDFI Fund provides targeted outreach and education, and in FY 2013, began a new capacity building assistance program specifically for CDFI MDIs.

The CDFI Fund provides targeted outreach through participation in various events and conferences, including the National Bankers Association's Annual Legislative and Regulatory conference. The CDFI Fund also participated in the FDIC's Minority Depository Institutions National Conference in June 2013, and in the Federal Reserve Board Summit, "Growing Economies in Indian Country," in 2012. Technical assistance is provided by working one-on-one with applicants and awardees through the CDFI Fund's help desk. In June 2013, the CDFI Fund also announced a new training program through its Capacity Building Initiative specifically designed to provide training and technical assistance to MDIs.

Finally, the CDFI Fund has participated in the Congressional Black Caucus Foundation's Annual Legislative Conferences, providing speakers on various panels, as well as made presentations at the Congressional Black Caucus luncheons. The CDFI Fund meets frequently with Members of the Congressional Black Caucus and Members of the Congressional Hispanic Caucus to discuss issues related to MDIs. Members from both groups have also attended several CDFI Program award events.

[5] The Office of Financial Institutions coordinates the Treasury Department's efforts regarding financial institutions legislation and regulation, legislation affecting Federal agencies that regulate or insure financial institutions, and securities markets legislation and regulation. The office also oversees the CDFI Fund.

Supporting CDFI and Native Initiatives Programs through Financial and Technical Assistance

The purpose of the CDFI Program is to use federal resources to invest in CDFIs and to build their capacity to provide credit, capital, and financial services to low-income people and communities that otherwise lack access to affordable financial products and services. Through the CDFI Program, the CDFI Fund provides two types of monetary awards to CDFIs: Financial Assistance and Technical Assistance. Financial Assistance awards provide financial support to certified CDFIs to help them increase lending and service activities in low-income communities. Technical Assistance awards are grants to build the capacity for both start-up and existing CDFIs. MDIs are generally eligible for both funding types.

The CDFI Fund's Native Initiatives are designed to overcome identified barriers to financial products and services in low-income Native Communities. Over 70 Native CDFIs are providing greater access to credit, capital, and financial services in Native Communities through the creation and expansion of CDFIs primarily serving Native Communities. The CDFI Fund's Native Initiatives include the NACA Program that provides Financial Assistance and Technical Assistance awards specifically to Native CDFIs, which includes Native CDFI banks.

Preserving MDIs through the Bank Enterprise Award Program

Through the BEA Program, the CDFI Fund provides monetary awards to FDIC-insured depository institutions that demonstrate increased investment in certified CDFIs, or in their own lending, investing, or service-related activities in distressed communities. Awards must be reinvested in community and economic development.

Through the FY 2013 BEA Program funding round[6] the CDFI Fund provided financial assistance to institutions classified as MDIs by the FDIC. In FY 2013, 36 percent of the award recipients (or 21 of the 85) were MDIs. These institutions received $6.2 million, or 36 percent of the $17 million available. These monetary awards were provided to MDI applicants demonstrating a strong commitment to serving economically distressed communities.

Collectively, program participants reported an increase in BEA eligible activities in distressed communities of over $417 million from the previous funding year. MDIs have also received substantial financial assistance in prior BEA Program funding rounds, as noted below.

- In the FY 2012 BEA Program funding round, 32 percent of the award recipients (or 19 of 59) were MDIs. These institutions received 40 percent, or $7.2 million, of the $18 million available.

- In the FY 2011 BEA Program funding round, 29 percent of the award recipients (or 22 of the 77) were MDIs. These institutions received 40 percent, or $8.9 million, of the $22 million available.

[6] The award announcement took place on November 15, 2013

- In the FY 2010 BEA Program funding round, 36 percent of the award recipients (or 25 of the 70) were MDIs. These institutions received 52 percent, or $13 million, of the $25 million available.

In addition to monetary awards provided through the BEA Program, BEA Program staff regularly engages in outreach and provides technical assistance to MDI applicants and potential applicants, as well as prior awardees.

New Markets Tax Credits

The CDFI Fund's New Markets Tax Credit (NMTC) Program provides a tax credit to private investors for investing in low-income communities. In a competitive process, the CDFI Fund awards Community Development Entities (CDEs) authority to allocate NMTCs, up to a specific amount, to private investors who invest in the CDEs. The CDEs, in turn, make loans to businesses in the low-income communities they serve, or invest in those business activities under favorable terms and conditions. The CDFI Fund estimates that the NMTC generates $8 in private investment targeted to low-income communities for every $1 in NMTC allocation authority that is awarded. In the 2012 funding round, eight of the allocatees (or 9.4 percent) were minority-owned or controlled entities, receiving allocation authority totaling $285 million. Treasury estimates that tax expenditures for NMTCs totaled $920 million in 2012, and are expected to total $930 million in 2013.

Capacity Building Through Training Initiatives

The CDFI Fund's Capacity Building Initiative engages third-party contractors to provide CDFIs access to training workshops and customized technical assistance on topics pertinent to the industry. The Capacity Building Initiative has supported training on subjects ranging from portfolio management, capitalization, small business lending, microfinance best practices, and others.

The CDFI Fund announced a Capacity Building Initiative series that provides assistance to CDFI MDIs on June 11, 2013. The series will provide CDFI MDIs access to free training workshops, webinars, original training curriculum specific to CDFI MDI needs, and free technical assistance opportunities. All materials will be made available via the CDFI Fund's Resource Bank, which is a virtual library of training curricula, webinars, subject-specific reference materials, and third-party expert documents on the CDFI Fund's website.

Capacity Building Through Research Initiatives

Treasury's CDFI Fund's Study on Access to Capital and Credit in Native Communities, launched this year, will examine Native American and Alaskan Native communities' access to capital and credit. The study will provide detailed analysis and quantitative research that can lead to actionable recommendations for improving access to capital and credit in Native Communities.

III. Small Business Programs

State Small Business Credit Initiative Program Overview

Created by the Small Business Jobs Act of 2010 (SBJA), SSBCI was funded with $1.5 billion to strengthen state programs that support lending to small businesses and small manufacturers. SSBCI is expected to help spur up to $15 billion in lending as participating states use federal funds to leverage private lending for creditworthy small businesses. Fifty-seven states, municipalities and U.S. territories offer the following SSBCI programs:

- Loan participation programs (LPP) in which the state purchases a portion of a loan after it has been closed by the lender, or in which the state makes a direct loan that closes at the same time as a larger private sector loan.

- Collateral support programs (CSP), in which a state pledges cash collateral to a lender when the borrower's collateral does not meet the lender's requirements;

- Loan guarantee programs (LGP), in which a state guarantees a portion of the loss on a loan;

- Capital access programs (CAP), in which the borrower, bank and state contribute to a reserve account held by the lender to cover its losses until the account is depleted; and

- State-run venture capital programs (VCP) in which the state invests equity in eligible small businesses or intermediaries that will invest in small businesses.

MDI SSBCI Program Results

MDIs have used SSBCI funding to support approximately $25 million of loans to small businesses in their respective communities. As of December 31, 2012, 12 active MDIs had made 97 loans in three states and the U.S. territories of Puerto Rico and Guam.

Through 2012, MDIs in California were the most active SSBCI participants, with eight California MDIs channeling a combined $22.7 million in loans to 83 small businesses. The Bank of Guam, which is an MDI, has applied its SSBCI expertise across state programs by lending to fourteen small businesses in both Guam and California. MDIs in Michigan, Indiana and Puerto Rico have used a combined total of approximately $1.2 million of SSBCI funding for four loans.

SSBCI Program Outreach Activities

Since its inception in September 2010, SSBCI has initiated numerous outreach efforts through state networking conferences, all-state conference calls, and best practices working group sessions. SSBCI has also hosted webinars and other training vehicles with the Federal Reserve Board, the Office of Comptroller of the Currency, the FDIC, as well as state regulators such as the Conference of State Banking Supervisors and the state banking regulators. Treasury coordinated training with the American Bankers Association to encourage increased lending by community based lending institutions. Treasury presented at industry trade groups and conferences such as the National Association of Government Guaranteed Lenders and the Opportunity Finance Network's Small Business Lending Fair to encourage increased program participation. Treasury has published articles in newsletters of numerous trade groups including the American Bankers Association, the Independent Community Bankers Association, the BankersHub, the National Association of Development Companies, and state banking associations.

Over 90 percent of SSBCI program participants are small lending institutions with less than $10 billion in assets, and the average loan size is approximately $320,000. Of all the loans and investments supported with SSBCI funds, 42 percent were used in communities whose median income does not exceed 80% of the broader area median income. Treasury will continue its efforts to support MDIs through the industry conferences and industry trade groups that target outreach efforts to encourage MDI participation in SSBCI programs.

Small Business Lending Fund Overview

Established by the SBJA, Treasury's SBLF is a dedicated fund designed to provide capital to qualified community banks[2] and community development loan funds (CDLFs) in order to encourage small business lending. The SBLF differs from CPP and other programs in that its purpose was not to act as a financial stability program. Rather, the purpose of the SBLF is to encourage Main Street banks and small businesses to work together, help create jobs, and promote economic growth in communities across the nation.

Treasury invested over $4.0 billion in 332 institutions through the SBLF program. These amounts include investments of $3.9 billion in 281 community banks and $104 million in 51 CDLFs. Collectively, these institutions operate in over 3,000 locations across 47 states and the District of Columbia. As of June 2013, institutions participating in SBLF have increased their small business lending by $10.4 billion over a $36.5 billion baseline,[4] and by $1.4 billion over the prior quarter.

For community banks, the SBLF is structured to encourage small business lending through a dividend or interest rate incentive structure. The initial rate payable on SBLF capital is, at most, 5 percent, and the rate falls to 1 percent if a bank's small business lending increases by 10 percent or more.[3] Banks that increase their lending by amounts less than 10 percent pay rates between 2 percent and 4 percent. If a bank's lending does not increase in the first two years, however, the rate increases to 7 percent. If a bank has not repaid the SBLF funding after four and a half years, the rate increases to 9 percent.

[2] For the purposes of the SBLF program, the terms "banks" and "community banks" encompass banks, thrifts, and bank and thrift holding companies with consolidated assets of less than $10 billion.

[4]. As established in the Small Business Jobs Act of 2010, the baseline for measuring the change in small business lending is the average of the amounts that were reported for each of the four calendar quarters ended June 30, 2010.

[3] The initial interest rate paid by S corporations and mutual institutions is, at most, 7.7 percent. If these institutions increase their small business lending by 10 percent or more, then the rate falls to as low as 1.5 percent. These interest rates equate to after-tax effective rates (assuming a 35% tax rate) equivalent to the dividend rate paid by C corporation participants.

For CDLFs, the SBLF is structured to encourage small business lending through access to low-cost capital at a 2 percent interest rate. These non-profit loan funds play a critical role in distressed communities across the country that lack access to traditional financial services. CDLFs engage in activities including offering microloans to entrepreneurs, providing mezzanine debt to growing small businesses, and financing community facilities like charter schools and health clinics.

Treasury encouraged SBLF participants to reach out to small businesses, including those owned by women, veterans, and minority communities. For the year ended June 30, 2012, 91 percent of SBLF participants reported engaging in outreach or advertising activities targeting women, veteran, or minority communities and 44 percent of their outreach spending was allocated to activities targeting these groups.

However, unlike the CPP program that was designed to promote financial stability during the financial crisis, SBLF was aimed at encouraging the strongest community banks and CDLFs to take advantage of low-cost funding to make additional small business loans

Two MDIs received approximately $4 million through participating in the SBLF program. As of June 30, 2013, one institution remains in the program and has increased small business lending by $9.2 million over a $43.3 million baseline, or by 21.2 percent.[7]

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[7] SBLF October 2013 Lending Growth Report (Quarterly)