The Economic Club of New York

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Nicole A. Elam, Esquire
President and Chief Executive Officer
National Bankers Association

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Webinar

Moderator: Michelle Caruso-Cabrera
Former CNBC Chief International Correspondent

Introduction

President Barbara Van Allen

Good afternoon and welcome to the 663rd meeting of The Economic Club of New York. I'm Barbara Van Allen, President and CEO of the Club. It's an honor to be here with all of you in our milestone year, our 115th anniversary. Over the past two years, through our Diversity, Equity & Inclusion programming, we've been leveraging the Club's platform to bring together prominent thought leaders to help us explore and better understand the various dimensions of inequity in underrepresented communities and to highlight strategies, best practices and resources that business can use to be a force for change.

We've not been doing this work alone. We'd like to give special thanks to our corporate partners – BlackRock, Bloomberg, Mastercard, PayPal, S&P Global and Taconic Capital as well as the many members, speakers, and subject matter experts that are now and will continue to be engaged in this work. Thank you to all of you.

A special welcome to members of the ECNY 2022 Class of Fellows – a select group of diverse, rising, next-gen business thought leaders, as well as a number of graduate students from Rutgers University and Columbia Business School joining us today.

I am really honored to welcome our guest, Nicole Elam, President and CEO of the National Bankers Association. The National Bankers Association is the premier trade association and voice for the nation's minority financial institutions. She's the youngest president and CEO since the association's founding in 1927. Nicole joined the NBA in May of '21 from J.P. Morgan Chase where she was Vice President and Government Relations Manager. In this role, she also managed national engagement strategies and led efforts on the firm's commitment to invest $30 billion over five years to advance racial equity and drive inclusive economic growth.

Nicole has spent more than 17 years working in public policy and public affairs. Prior to J.P. Morgan Chase, she led the government and external affairs strategy for ITT Educational Services. Nicole also worked as a senior director at the government affairs firm, Ice Miller Strategies, LLC. She's held legal roles as an attorney at Akin Gump Strauss Hauer & Feld, focusing on congressional investigations and government enforcement actions and as a law clerk at the NAACP Legal Defense and Education Fund in Washington, D.C.

The format today will be a conversation in which we're fortunate to have Club member and former CNBC Chief International Correspondent, Michelle Caruso-Cabrera, as our moderator. Thank you, Michelle. Thank you, Nicole. We're going to end promptly at 2:45. Any questions that were submitted to the Club from members were shared and will be addressed during the conversation. In addition, we will be using the chat box today and you can enter your questions directly in the chat box, and if there's time, Michelle will certainly try to use those, time permitting, as I said. As a reminder, the conversation is on the record and we do have media on the line this afternoon. Michelle, I'm happy to pass this time over to you.

Conversation with Nicole A. Elam, Esquire

MICHELLE CARUSO-CABRERA: Barbara, thank you so much. It's a real honor to be here, a pleasure to do this, an honor to interview you, Nicole, in this important discussion. Just so we set the stage here, so people understand the organizations that the NBA represents, MDI's, minority depository institutions, are actually defined by law. Starting since 1989, it's a federally insured depository institution where 51% or more of the voting stock is owned by minority individuals or a majority of the board of directors is minority and the community that the institution serves is predominantly minority. And those are the organizations that are members of the NBA. Tell me, why, Nicole, are MDIs, minority depository institutions, important?

NICOLE A. ELAM, ESQ: Well, first, I want to thank you, Barbara, and The Economic Club of New York, for inviting me here today. And Michelle, thank you for moderating today's conversation. But your question is a great one. Why do MDIs matter? And, you know, minority depository institutions matter because they are significant providers of mortgages and small business loans in Black and Brown communities.

Now, why does that matter? It matters because over the last two years, everybody has been talking about closing the racial wealth gap. And it is really hard to close the racial wealth gap without the financial institutions that have been supporting those communities since, you know, they were first created. These are institutions that were borne out of racism, because Black, Brown, and immigrant communities could not go to mainstream financial institutions for their banking services.

So, to just step back and think about the wealth gap, oftentimes people don't think about what are the key drivers to wealth creation? Well, the three key drivers to wealth creation are having access to banking services. It's really hard to grow your wealth if you don't have access to banking services. Home ownership continues to be a key driver of wealth creation and owning a profitable small business. And so when you think about those three things, MDIs are at the center of all of those things for Black and Brown communities. Those are the ones that are oftentimes saying yes to lending when mainstream financial institutions are saying no.

So a question that I typically get is, well, because these institutions are over a century old, right?, because they were borne out of racism, do they still matter today? And the answer is unfortunately yes, because data continues to show that Black and Brown people, even with the same financial record, with the same credit profile, are still being denied at a rate that is two times that of their White counterparts. So these are institutions that are, again, providing mortgages and small business loans in communities that are oftentimes underserved by mainstream banking institutions.

MICHELLE CARUSO-CABRERA: I was reading, there's been a lot of work done by the Milken Institute, by various organizations, and the overlay of areas where the CDC defines a community as vulnerable, and where MDIs serve is very coincident. They're in the areas that need the most help.

NICOLE A. ELAM, ESQ.: Yes, and as you defined, you've talked about the definition of an MDI, these are banks that are, one, predominantly owned or operated by people of color and, two, predominantly sit in and serve minority communities. It's not a surprise then that they are so active in those communities in providing mortgages and small business loans to close the wealth gap.

MICHELLE CARUSO-CABRERA: This is a New York audience. Are there MDIs here? There must be. What are some of the big ones here?

NICOLE A. ELAM, ESQ: Yes, there are. There are about a dozen MDIs in New York. I'll call out a few. The majority of them are Asian MDIs, which isn't a big surprise. There are only about 143 MDIs across the nation and over 70 of them are Asian. So the predominant majority of those that are in New York are Asian. You've got one Black MDI, Carver Federal Bank, one multiracial bank, which there are only two multiracial banks in the entire U.S. And that's Piermont. One is in New York. You have your largest Hispanic bank, Popular, is there. So there are a dozen of them there.

MICHELLE CARUSO-CABRERA: Fantastic. The 2008 Financial Crisis was really difficult for MDIs. It devastated them. There used to be more than 200 before the Financial Crisis. A large percentage of them failed. You mentioned now there's only 143 left in the U.S. Why did so many MDIs fail back then? Was that the quality of the assets? Was that the liability side, a run on deposits? What lessons did we learn from that so that way we can make MDIs stronger in the future?

NICOLE A. ELAM, ESQ.: Yes, that's a great question. So the 2008 Financial Crisis impacted the entire banking sector, right? So you saw a decline throughout the entire industry. Now there are over 3,800 less banks today than there were then. But MDIs, you really saw that. There was a 40% decline in MDIs. And when you double-click down on particularly the Black banks, those have been the most under-capitalized and those have seen the most consolidation. So there were 41 before the start of the financial crisis. Today, there are only 19, so cut in half. They've also seen the most consolidation historically at large. At its peak, there were over 134 MDIs, Black MDIs. Today, again there are only 19. So they've experienced the most consolidation.

Why is that? The first is around under-capitalization. These are banks that have not had access to the same capital markets as other financial institutions. So when you're under-capitalized and your community gets hit hard by an economic downturn, guess what? You're hit hard by the economic downturn as well because you are serving that very community. So it underscored the importance of needing more capital for these under-capitalized banks that do so much in those communities.

The second thing that it underscored was just the role that systemic racism has played. Because it wasn't a liquidity issue. What it was, was an asset quality issue. When you think about, you know, loans, and the collateral that is needed for loans, a lot of it is real estate. Well, if you're in a market that historically has experienced redlining or did not qualify for federally-backed mortgage loans because it was a Black or Brown community and it was considered hazardous, it's no surprise that there are huge appraisal gaps there. So a lot of the collateral that was used for lending in those communities that these banks served experienced a huge drop and they never recovered like maybe the White neighborhoods did. So appraisal gaps were huge. The redlining was huge. All of those things are linked.

And so I think it goes to show, one, more capital. But two, the impact of systemic racism, that we really need to be making sure that we're focused on. That's why people talk so much about the appraisal gaps and more credit enhancements, because those are things that can get at the historic systemic racism that you've seen that have impacted the collateral in these communities.

MICHELLE CARUSO-CABRERA: When you say they were under-capitalized, is it that they weren't meeting the ratios back then or was it, like all banks were, we realized, were under-capitalized back then?

NICOLE A. ELAM, ESQ.: No, I don't think that you can say all banks were under-capitalized. I think this is a small bank problem, but it's particularly a minority depository institution problem. So historically, the capital of MDIs has ranged around $200 million. So these are the smallest of the smallest banks, right? You don't have a lot of capital to begin with compared to, like my former employer, a $3 trillion-plus bank. Or the average bank is about $4 billion. So these are the smallest of the small banks. If they're borne out of racism, they don't have access to those same markets. They can't just go and get capital the same way the same way that maybe a larger financial institution can do that. So it's not that every bank was under-capitalized. I think it just really goes to show these particular banks, and particularly your small banks as well.

MICHELLE CARUSO-CABRERA: The tiny size that you highlighted means that they often can't also do big business, big loans, which is a key way to make money, right, obviously for a bank. What can be done to overcome that so that they can get into some of the bigger, the bigger loans out there?

NICOLE A. ELAM, ESQ.: Yes, that's a great question because oftentimes they are locked out of those opportunities because of size, right? They're too small. They can't do it. They can't do it. But there are two things that we've seen that has worked. One, a number of the large G-SIBs have made commitments to MDIs as well as CDFIs, community development financial institutions. J.P. Morgan Chase, Bank of America, Citi, Wells Fargo, Truist, all of them have made commitments.

So as part of their commitment, they can bring these MDIs in on part of these big, big opportunities as co-leads, not as participants. Loan participations oftentimes are cost-prohibitive for these small banks to participate in. But bringing them in as a co-lead on a syndicate is something that they can do, particularly if they've already made a commitment to MDIs.

A second thing that you can do, because they don't have the scale, is collaboration. So last year, the Atlanta Hawks said as part of their commitment to advance racial equity, they wanted to use minority banks to finance their new training facility. Well, not one bank had the scale to do that. So a consortium of ten banks, they didn't take ten banks, at that point it was just, you know, coming together for the good of this opportunity, ten banks came together to participate in a loan syndication. So whether it is partnering with a large bank or it is them coming together as smaller banks, there are certainly opportunities for them to achieve the type of scale that they need to participate in these opportunities.

I think the key point is what you raised, Michelle, is not allowing size to continue to prohibit them, or the fact that they don't have a track record. That's something that you hear all the time. Oh, they're too small, they don't have a track record. They're not going to be able to get a track record if you don't give them the opportunity.

MICHELLE CARUSO-CABRERA: Right. What about being so small that it's hard to afford the technology that so many banks are using, you know, apps, etc., online interface portals, etc. Does your organization help them when it comes to things like technology or things that a small bank can't do, but if they had some scale or worked with others, that they could?

NICOLE A. ELAM, ESQ.: Yes, absolutely. Technology is something that is huge in the banking industry and it really exploded during the pandemic. You know, what we found was that banks that had technology were able to perform better, right? They were able to keep their virtual doors open, if you will, to continue to serve their customers. They were able to push out PPP loans. But technology is expensive, but it's underpinning everything that we do. Not just the way that we live, work, and play, but the way that we bank. And so they've got to have technology to keep up. But because technology is expensive, they don't have the scale that they need. That's one of the biggest cost-prohibitive reasons, is it's so expensive. And if you're a small bank, that's $200 million, $300 million, technology is too much.

So one of the things that we do as a trade association is we try to serve as a shared resource center. You know, really trying to collaborate and bring opportunities of scale to the table so that we can take advantage of tech and talent on behalf of these banks. So we are brokering fin-tech partnerships so that our banks can do more online onboarding. They can open more accounts, if you will, online. They can do more automated lending for mortgages and small business loans. They can do more of P2P, so the Zelle and all of those Peer-to-Peer payments that they can't do on their own. So we're brokering and building those fin-tech partnerships. We're also negotiating special prices for these MDIs. We're trying to have a centralized chief technology officer. So all of these things we're trying to centralize and do it because individually they don't have the scale, but together we have the scale to get further faster.

And so we are really trying to do as much of that as we possibly can realizing that there are two things that I think are going to threaten the longevity of MDIs. One, technology, because banking now is all about technology. But two, their ability to capture the next generation. I talked a little bit about the history of MDIs, that they were borne out of racism. So my parents, my grandparents, my ancestors, they all used it, but I may not know about an MDI, and I'm really not going to know about it if they don't have technology. I can't get on an app. I can't do all these types of things. So if they don't get technology together, it's going to really impact their survivability.

MICHELLE CARUSO-CABRERA: Just staying on the theme of technology, if you're able to achieve that, can technology reduce the racial wealth gap?

NICOLE A. ELAM, ESQ.: Absolutely. I think technology does two primary things. One, it improves the access to financial services. And second, the affordability of financial services. So technology increases access because you can reach people whether you have a brick or mortar there or not. You can reach people on their phones. So it allows you to reach more people. It also allows you to do more financial wellness training, right? People aren't wanting to come in and sit in a class and hear you talk about financial wellness. But if it's an app that's integrated into the way that I'm establishing a banking relationship or increasing or leveraging a banking relationship, so technology helps you do more of that.

Technology also helps with affordability. With technology, I can operate more efficiently. I can reduce my costs. I can reduce my risk. And so technology is very important to reducing the wealth gap because of these two things of it helping to drive access to and the affordability of financial services.

MICHELLE CARUSO-CABRERA: We have, one of our viewers has asked a question related to this. Are MDIs taking on a disproportionate role in improving financial literacy among minorities?

NICOLE A. ELAM, ESQ.: Yes, so here's the interesting thing about financial literacy. It is now kind of a buzzword. But the interesting thing about, particularly Black, Brown and immigrant communities, is that you can't just give them capital. You can't just give them a loan. You have to make sure that they are capital-ready, mortgage-ready. So I think what has always distinguished MDIs from maybe mainstream financial institutions is it takes so much of our personnel because we are doing a lot of that coaching, that financial literacy as we're providing them with whatever capital that they need.

So we have always been focused on capital and coaching whenever we're doing lending. And I think that's also too what drives up the operational cost of an MDI, because they are doing so much of this hand-holding and walking people through the process. That's not something that you've historically seen mainstream financial institutions do. It's obviously become a buzzword and a trend as of late. But that is something that has always been embedded into the DNA of these institutions.

MICHELLE CARUSO-CABRERA: I want to move on a little bit to regulatory issues. What are the policy priorities for the NBA? When you're talking to, let's say it's in Washington or in various states, what's your message to them?

NICOLE A. ELAM, ESQ.: Yes, so we have a number of policy priorities. And if I were to bucket them, I would bucket them in __, right? And so increasing the capital that is going to these financial institutions is huge. So you saw the Treasury's Emergency Capital Investment Program. You saw the plus-up of the CDFI Fund, which provides grants to MDIs and CDFIs and many MDIs are also what's considered community development financial institutions, where 60% of their activity is done in underserved communities. And so increasing capital is a huge priority. So passage of the Ensuring Diversity in Community Banking Act, the promoting and advancing communities of color through inclusive lending, all of those things are focused on increasing capital to these institutions amongst other things.

Another thing is increasing grants and financial support for MDIs. We talked a lot about technology and the technology gap that exists and how cost-prohibitive technology is. So really pushing for authorizing dollars to support grants for technology and also grants to support starting a new minority depository institution. It costs a lot of money to start a new bank and so providing grants and financial support to start new MDIs.

Another thing, focused on increasing opportunities for MDIs. So, as of late, you've heard a lot of people talk about the Infrastructure and Transportation Bill, particularly last year and the beginning of this year. Well, one thing that we're asking is are you including MDIs in the financing of these public projects? Who are you using for these projects? And so ensuring that MDIs have a seat at the table in the financing of these public projects. So those are all things. The Community Reinvestment Act, this is something that is up for review and reform. So those are some of the things that we're focused on from a legislative perspective.

MICHELLE CARUSO-CABRERA: Let's stroll down a little bit more into some of those. The FDIC has announced a program to provide more capital for MDIs. Visa just announced they are going to put $100 million worth of deposits in MDIs. I assume you think these are good things and is there more of these to come?

NICOLE A. ELAM, ESQ.: Yes, I think these are good things. The FDIC's Mission-Driven Bank Fund was something that was started by the former Chair, Jelena McWilliams, and it was about providing more capital and has since evolved to providing capital and strategic advisory services for MDIs and CDFIs. I think this is good. You've seen a lot of these equity funds. MDI Keepers Fund was actually the first equity fund that was started in 2015 to provide more capital to MDIs. But unfortunately nobody was paying attention to equity and so it wasn't until the unfortunate murder of George Floyd that people actually started to put into this fund.

Visa making deposits, that's a trend that you saw really two years ago where people didn't know how to help so they said, oh, we're just going to do a deposit. And what we encourage people to do is don't stop at deposits, right? Because people need capital to offset a deposit. That deposit is really a liability on your balance sheet because I've got to pay to keep your money because you can take it out at any time. And so we really were focused on it's not just about deposits but making sure that you're having an established banking relationship.

So with Visa, we've been working with them about ways that they can do more from a financial services perspective. How can our banks leverage your credit card rails to do things like payment processing and things that have been cost-prohibitive for them to do in the past. Merchant services, right? Every time somebody swipes a card, who are you using to process that? These are all things that we're really talking to folks about. Don't stop at just making a deposit. Really try to have an established banking relationship. Or maybe it's not an established banking relationship, maybe it is really leveraging your expertise around technology or leveraging if you're a big bank, your expertise around investments or climate finance or whatever it may be so that our banks can start to get into things that they haven't been able to get into before because they didn't have that expertise in-house.

MICHELLE CARUSO-CABRERA: You also, one of the priorities is, as you mentioned, to amend the Bank Holding Company Act to allow MDIs and CDFI banks under $3 billion to raise additional capital without triggering the change of control provisions. What does that mean to somebody who is hearing that for the first time? And why does it matter?

NICOLE A. ELAM, ESQ.: Yes, that is so important. So the Bank Holding Company Act basically has a provision that's called change of control provision. And it's triggered whenever an investment exceeds 25% of the institution's equity. Now, why does it matter? It matters now because people are all focused on investing in MDIs because it's part of their racial equity commitment or they're focused on closing the wealth gap. Well, oftentimes, they're prohibited from doing that because if you're a small bank, it doesn't take a lot to trigger that 25% threshold. And so what happens is people who are wanting to making investments in MDIs are arbitrarily limited. You know, they can't maybe make more than a million or $5 million or what have you because they don't want to trigger this 25% threshold.

So what we've really been advocating is eliminating that change of control provision. So if you are a small bank that's under $3 billion, we want an exemption from this Bank Holding Company Act change of control provision. So that if you're an investor, you can make an investment of non-voting stock into this bank or in exchange for your investment, get non-voting stock. That matters because oftentimes people aren't making investments in MDIs because it's not worth it, right? If you're a small bank, I might trigger it with $500,000 or a million dollars or what have you. It's just not worth me making that investment. So allowing for investors to make that investment that exceeds 25% would be really important.

MICHELLE CARUSO-CABRERA: Just so everybody understands, this isn't about changing the very definition of the bank because once, presuming let's say this is an outside investor who is not a minority, this isn't about violating the definition of the MDI. It's more about the degree of control that they have. Correct?

NICOLE A. ELAM, ESQ.: It's about the degree of control. And if that degree of control changes too much, then your status as a minority depository institution is at stake. But it's really about the non-cumulative, non-voting stock. That's really what matters. There shouldn't be a limit on that.

MICHELLE CARUSO-CABRERA: A number of other topics in here. When I look at the, you know, if people go to the NBA website, you can read all the legislative priorities. One of them is related to TARP, the Troubled Asset Relief Program, that many in our audience may think is over, and I guess it is officially. But are there some MDIs still stuck in the TARP Program?

NICOLE A. ELAM, ESQ.: You have a few MDIs that are still stuck in the TARP Program. And because they were stuck in the TARP Program, they haven't been able to take advantage of a lot of the investment opportunities. So, for example, the Treasury's Emergency Capital Investment Program, that was $9 billion that went to MDIs, CDFIs, banks, and credit unions. Well, if you were still involved in TARP, you could not take advantage of the ECIP dollars.

Now, why does that matter? It matters because this was an unprecedented amount of dollars that was going into the sector, $9 billion. Can you imagine if you had access to $9 billion in capital, how that could help your bank. Well, we see some banks that are doubling in size as a result of their opportunity to take advantage of ECIP. And so because they are still involved in TARP, they haven't been able to take advantage of some of these opportunities that are out here right now.

MICHELLE CARUSO-CABRERA: Why are they still in TARP? Is it a capital adequacy issue? What's going on?

NICOLE A. ELAM, ESQ.: There's a number of different reasons why some of them are still involved in TARP. But it's something that could be resolved.

MICHELLE CARUSO-CABRERA: Got it. MDIs tend to, let's talk a little bit about, when we're thinking about asset quality here and thinking about TARP and real estate, MDIs tend to have a higher number of commercial real estate loans compared to other institutions. Why is that? And it's highlighted as a risk. Why is that and what can be done to diversify their assets to make them less concentrated?

MICHELLE CARUSO-CABRERA: Yes, I think it goes back to why MDIs were created to begin with. MDIs were making loans when mainstream financial institutions were not. They're saying yes when others are not. And you oftentimes don't see mainstream financial institutions making loans to churches, right? And so that is a huge area that many MDIs, particularly your Black MDIs are making church loans.

Church loans are a huge part because mainstream financial institutions aren't doing church loans. Some of it is just reputational risk. Right? Nobody wants the headline that they closed down a church, if you will, and so they're not engaging in that. And so you see many MDIs are making investments in these community anchors like churches or community anchors like a nonprofit institution. And so that's why you see so many CRE loans being made because oftentimes many of them are church loans when those churches could not go to other mainstream financial institutions.

And many, when you look historically, many Black institutions were actually borne out of Black churches. That was the gathering spot. That's where many of the leaders came from. And so historically there's a huge connection in terms of the benefit and the role of Black churches in the community. So, you know, MDIs are really having to diversify their portfolio so that they're not just the bank of the community or just the bank of the Black church, so that there's a lower concentration. And so we've really been intentional at helping our banks diversify by doing things like getting engaged in climate financing. Those are some of the areas that we're really trying to encourage our banks to get engaged and involved in. But oftentimes where you see them at is really because of history.

MICHELLE CARUSO-CABRERA: Interesting. Yes, there's a prominent Black church here in the Bronx, in New York, that has been very associated with affordable housing because they didn't see anybody else doing it. So they decided to do it. And it's a very kind of organic situation that arises when people, you know, necessity is the mother of invention. You mentioned climate finance as one way. These churches don't necessarily, excuse me, these MDIs don't necessarily have expertise in climate finance, right? Is that something that NBA can help with?

NICOLE A. ELAM, ESQ.: It is. It is. So we are really trying to be a centralized resource center as it relates to tech and talent. So those are both things that you need scale to take advantage of. And climate financing is a unique thing just like mortgage is a unique thing and you oftentimes need lenders and underwriters who understand the compliance and regulatory landscape, who know where to go and find these deals.

And if you're a small bank, you know, I already may have a person who is wearing two or three hats, why would I add this third hat or fourth hat on them for something that, you know, I don't really know and there's a lot to it. And so we've been working with support from the Hewlett Foundation and with others to really hire on the consultants and those climate finance lenders who can help our banks get more engaged in an area that they don't have the scale to hire their own expertise around.

MICHELLE CARUSO-CABRERA: I listened to a podcast that you did and you discussed with that interviewer, bank examiners. And in particular, that they don't tend to understand mission-driven banks and that bank examiners, when examining MDIs and regulating them, that they have to understand the point. Can you tell me more about that? What would you like to see differently when it comes to bank examiners?

NICOLE A. ELAM, ESQ.: Yes, so when it comes to examiners, bank examiners oftentimes lack diversity in hue and view, right? So you don't see a lot of diversity in the racial and ethnic backgrounds of these examiners. The second thing is you don't see a lot of diversity in their understanding of mission-driven banks. And so what happens is when you are reviewing a bank, you're going through your supervisory process, you're oftentimes comparing this mission-driven bank to what you would consider a peer group. But their peer group is probably serving a wealthier demographic. It's not serving a demographic that has fallen victim of redlining and the borrowers in their community haven't fallen victim of redlining and appraisal gaps and all of these, systemic racism.

And so when you're comparing these demographics that you see are peer groups, you're making unfair comparisons because you don't understand the mission of this bank. This bank is here to serve a demographic that has been underserved, and underserved doesn't mean low income. Oftentimes, people think Black, Brown, low income. That's not the case. People are still being denied for credit even when they have the same credit profile as White counterparts. And so it's because of that, oftentimes they are making, they're not sensitive to the special risk factors associated with running a mission-driven bank. And it has led to unfortunately some banks, you know, having to close their doors because they have been unfairly examined.

MICHELLE CARUSO-CABRERA: Tell me a little bit more about that. So a bank examiner goes in and there's capital ratios, there's arm-length loans, there's, I guess, how loans are collateralized. When the rubber hits the road, what's going on there?

NICOLE A. ELAM, ESQ.: When the rubber meets the road, it is, because I don't understand that most of your loans are collateralized and most of the collateral is real estate and most of that real estate has been historically undervalued from a real estate perspective, I'm comparing and I'm saying, oh, man, this portfolio isn't good, isn't strong. Or things like, you know, when we're making, right now something that is popular is alternative credit, looking at alternative forms of credit. So that is something that has been very popular, but that has been something that our banks have historically done because we know that algorithms can have biases in there.

I know that I can look at the in-flows and ex-flows, you know, if you're looking for a small business loan, I can look at your in-flows and ex-flows and I can say, oh, man, you're standard, right, like, you're good. Or I can look at the fact that maybe you don't have a mortgage payment that is consistent, but you've got a rent payment that is consistent. And those are things that I'm looking at. But if I'm comparing what you're doing to somebody else, I can say, oh, why are you looking at these things, and I can be dinged. And so that goes to the safety and soundness of your lending practices as opposed to going to take into consideration, no, this is a different demographic that is served, that when you look out, they're not defaulting any more than somebody else over time.

MICHELLE CARUSO-CABRERA: Yes, I imagine trying to assess a loan to a church, someone would be looking at the weekly tithing, which would be traditional compared to say, if you're looking at rents in an apartment building. Got it. Jamie Dimon said recently that he thinks there's a hurricane coming, a financial hurricane coming. Considering all that we have talked about the struggle of MDIs, are you worried right now?

NICOLE A. ELAM, ESQ.: Yes, I think what I'm really trying to do is make sure that my banks are in the best possible position from a capital perspective, that they will be better situated for an economic downturn. I'm also trying to make sure that they're diversified so that they don't have all of their portfolio in one thing, that they have the technology to sustain themselves, that they are part of these formal or informal mentor-protégé relationships so that they are working with big banks. So I'm really trying to focus on the capital and the business models of our banks so that they are in a much better position.

We're also trying to encourage people who want to do equity funds to maybe focus on loan loss reserve funds so that when an economic downturn happens, that these banks that are supporting borrowers that are going to be hit often first and hardest are able to sustain themselves. So these are the things that we're trying to make sure that we're prepared for. One thing that we know is that things are cyclical, right? It's going to come up and it's going to come down. That's always going to happen. And we want to make sure that we're not losing more MDIs at a downturn than we did before.

MICHELLE CARUSO-CABRERA: I would guess that you talked about how loan officers in MDIs have to wear multiple hats so it's very hard to specialize. I would also mention that maybe there's a lack of expertise when it comes to workouts. And when you have a troubled loan, what gets done? I mean maybe that's another area that the NBA can help with in terms of, you know, God forbid, that's going to be a big need, but, you know, the more people talk, the more worried I get that that's going to be something that's going to be required.

NICOLE A. ELAM, ESQ.: And I think what's great now is that you have seen a focus on MDIs and CDFIs over the last couple of years so there is an unprecedented amount of capital that's flowing into these institutions. And so the unfortunate thing is that a lot of that capital has been focused on lending and not operational or infrastructure. And so I'm concerned that they won't be able to push out all of this capital that they are receiving unless they get some more flexible capital to hire more people to invest in technology. And some of them are starting to do that now.

MICHELLE CARUSO-CABRERA: If indeed we have another tough situation, going back to the 2008 Financial Crisis, were the MDIs able to capture a lot of the help that was happening at the time? I mean there were so many special provisions made for Goldman Sachs, for example, and their ability to change their status. Did we learn anything back then about what MDIs needed and should get access to in the event of a financial hurricane?

NICOLE A. ELAM, ESQ.: Yes, I think you saw a lot of conversation around loan loss reserve funds and helping with economic downturns. You saw conversations around, just under-capitalization. And you saw conversations around deeper things that are more systemic, that we still haven't found solutions for, things like the appraisal gaps, things that are still in conversation. There's also a lot of, you know, regulatory sandboxes that happened where people were given a space to try new things but unfortunately a lot of those new things weren't being tried at small banks. A lot of those things were being tried at maybe larger financial institutions. So there were a lot of lessons. Have we implemented them all? No. There's still work to be done.

MICHELLE CARUSO-CABRERA: Tara Hariharan has sent in. She's an ECNY 2022 Fellow. Thank you, Tara, for your question. What can the broader financial industry, banking regulators, and public policy do to advance financial literacy in underserved communities?

NICOLE A. ELAM, ESQ.: Yes, so the interesting thing about financial literacy is that people talk a lot about education, education, education. But it's not just about giving people the education. You really have to give them the education at a point where it changes their established banking relationship or encourages them to establish a banking relationship. So we've been working a lot with fin-techs who do automated lending, who you can apply for a loan, receive a loan online. And we're encouraging them to offer financial literacy or financial wellness programs as an incentive. So if you complete that, then maybe you get a better interest rate.

The same is true when we are doing financial wellness programs. We're offering them and when you complete a module, it takes you back to maybe doing something different, opening a bank account or an investment account or this, that, the other. So connecting that module learning to having them do something that changes their banking behavior. So I think what you can do is not have education separate from changing banking behavior. It needs to be linked to changing banking behavior or it's just going to be information that goes in one ear and out of the other, which I think is why apps are so important, right? Because apps oftentimes encourages you to do something. So as you have all of these apps that you can open an account or you can get a loan, all of those things should be linked to financial wellness and financial literacy.

MICHELLE CARUSO-CABRERA: Is there anything I should have asked you or you expected me to ask you, or anything you'd like to leave the audience with?

NICOLE A. ELAM, ESQ.: I think the only thing that I would like to leave the audience with is find a way to work with minority depository institutions. Whether it is a deposit or whether it's offering your technology expertise or it is finding a way to integrate them into your racial equity programs, find a way to work with it. And if you need help, reach out to the National Bankers Association. You know, over the last two years we have evolved from your traditional D.C. policy advocacy association to one that is really focused on creating pathways for partnerships to better capitalize, modernize, and strengthen MDIs. And so we can work with you to create a partnership that works best for your institution.

MICHELLE CARUSO-CABRERA: And we are all cheering you on.

NICOLE A. ELAM, ESQ.: Thank you.

MICHELLE CARUSO-CABRERA: Thank you. It's been a real pleasure and an honor to chat with you today. Thanks for doing this. As you can see, Barbara's back. Hi, Barbara.

PRESIDENT BARBARA VAN ALLEN: Hi there. And thank you both, Michelle and Nicole. Just a great conversation. And we always like it when we can come away with specific strategies and approaches that the financial community and the business community can use to help move the needle. So, again, many thanks to both of you.

I'm pleased to report that we have many more great speakers lined up. And as always, we encourage you to invite guests to our events. We had Arvind Krishna, the Chair and

CEO of IBM, planned for tomorrow at lunch and he unfortunately has laryngitis so we are lucky enough to have coming in his stead, the President and CEO of Red Hat, Paul Cormier, and he will be here. Again, that's in-person/hybrid event tomorrow, June 7th. And we're getting the word out now to everyone that had registered for digital or in-person. On June 14th, we have Shawn Henry. He's the President of CrowdStrike. Evan Greenberg joins us, the Chair and CEO of Chubb Limited and Chubb Group on June 16th. Also in person, Brian Cornell, the Chair and CEO of Target, also an in-person/hybrid, June 21st. On June 27th, we're going to be honoring Roger Ferguson and Stanley Fischer for our Peter G. Peterson Leadership Excellence Award Dinner. And Roger Ferguson will be giving an address on the future of capitalism. And I want to mention Sarah Armbruster, the President and CEO of Steelcase, will join us July 21st and will be giving insights on what does the structure of back-to-work look like in offices and other related issues. And then just late-breaking news, we will have Glenn Hubbard and Larry Summers joining us also in July and we will soon be announcing the date.

I'd like to take a moment to recognize our 346 members of the Centennial Society, those that joined us today, for their contributions which continue to be the financial backbone of support for the Club and help us offer our diverse programming now and into the future. So again, thank you, Michelle. Thank you, Nicole. And everyone, please enjoy the rest of your day, and I hope to see many of you tomorrow. Thank you.