

223

Helping Advance Racial Equity in the Financial Services Industry

Collaborating with Minority Depository Institutions to help expand banking and access to credit in Black communities

November 2021

citi®

Why Minority Depository Institutions Matter

Minority Depository Institution (MDI) is a federal designation for a bank or credit union that is either owned or directed primarily by Black, Asian, Hispanic/Latinx, and/or Native American individuals in the United States. While these institutions date back to the 1800s, their numbers have fluctuated with the country's economic booms and recessions. In the early 1970s, the government established a Minority Bank Deposit program to encourage the sector's growth. A decade later, following an economic downturn that resulted in several minority bank closures, Congress formalized the MDI designation through the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. By 2008, the amount of MDIs had grown significantly, reaching 215 MDI institutions across the country.¹ Yet, as of December 2020, there were 142 MDI banks, with assets totaling more than \$287 billion.²

Historically, MDIs have been the trusted source of banking and access to capital for communities of color. For generations, they have provided essential financial services, especially for Black Americans, who have not had equitable access to the mainstream banking system and therefore had fewer opportunities to build intergenerational wealth. Research shows that, compared to other financial institutions, MDIs originate a greater share of mortgages to borrowers of color.³ They also originate a greater share of small business loans guaranteed by the Small Business Administration (SBA) to entrepreneurs of color. The economic impacts of the COVID-19 pandemic have further reinforced the critical role that MDIs play in expanding access to banking and credit in communities of color. MDIs made more than 141,000 Paycheck Protection Program (PPP) loans, totaling more than \$10.7 billion to small businesses, with a large share of their loans made in zip codes with a higher percentage of Black residents.⁴ Loans to local businesses in Black neighborhoods are critical to supporting an equitable economic recovery and closing the racial wealth gap. Data shows that businesses owned by people of color are more likely than other U.S. companies to support their local community through services and employment.⁵

The Challenge Facing Black MDIs

Since 2001, the number of Black-owned and operated banks has declined by more than half.⁶ As of December 2020, there were only 20 Black banking institutions.⁷ During recent Citi focus groups with Black MDIs, leaders overwhelmingly prioritized greater access to capital and capacity building investments to grow their revenue and operations, which would enable the MDIs to diversify products and expand services to communities they serve.



Black MDIs represented just 14% of all MDIs at year-end 2020, down from 30% in 2001.⁸



Meanwhile, **one out of every seven** Black households in the U.S. is unbanked.⁹



Why we Partner With MDIs

MDIs are central to the financial services ecosystem, providing customers with banking, homeownership, and small business lending products and services. By investing in MDIs, Citi is doing its part to promote and encourage the growth of financial institutions that are critical to the strength and vitality of communities.

Business Case for Racial Equity

According to a Citi Global Perspectives & Solutions (Citi GPS) report published in September 2020, Closing the Racial Inequality Gaps, if the U.S. had closed critical racial gaps for Black Americans in wages, housing, education and investment 20 years ago, up to \$16 trillion could have been added to the U.S. economy.



Closing the Black Wage Gap could have added up to **\$2.7 trillion** in income available for consumption or investment.



Facilitating access to higher education for Black students could have increased lifetime incomes by up to **\$90-\$113 billion**.



Improving access to housing credit might have added an additional **770,000** Black homeowners, adding up to **\$218 billion** in sales and expenditures.



Providing fair and equitable lending to Black entrepreneurs might have resulted in the creation of up to **\$13 trillion** in estimated business revenue and potentially created **6.1 million** jobs per year.

If these gaps were eliminated today, up to \$5 trillion could be added to the U.S. GDP over the next five years.

"We can't ignore the role our own industry has played in contributing to racial disparities and we can't forget that the biggest difference we can make comes from the work we do day in and day out by changing the ways we work for the long term and by setting an example for others to follow."

- Jane Fraser, CEO, Citi



Our Early MDI Relationships

Collaborations with MDIs are not new for Citi. We have long prioritized an intentional focus on strengthening the economic trajectory of minority banking institutions and the communities they serve.

In 2016, Citi piloted the Citi® ATM Community Network, a program that enables clients of participating MDIs, community banks and credit unions to access Citibank ATMs free of charge. This initiative provides convenience and nearly \$1 million in cost savings to more than 440,000 customers of participating institutions. The Network was highlighted by the U.S. Department of the Treasury's Office of the Comptroller of the Currency (OCC) as a best practice in collaborating with MDIs.

One year later, the U.S. Department of the Treasury worked closely with Citi to develop and pilot their Financial Agent Mentor-Protégé Program. The initiative pairs the nation's large financial institutions with MDIs to perform Department of the Treasury contracts and subcontracts and foster the long-term business relationships between these entities and Treasury prime contractors. While the program's core component focuses on enabling and preparing MDIs to participate in large-scale government transactions, Citi expanded its mentorship model. Citi's approach provides additional benefits, including potential access to strategic advice, a network of partners, technology guidance and support, as well as potential distribution of consumer products like mortgages, credit cards, and digital bank accounts that MDIs typically can't afford to offer independently. The lessons learned from our long-standing Mentor-Protégé relationships continue to inform Citi's approaches and initiatives today.

"As we continue to do the work to become an anti-racist institution and drive finance toward a more equitable and inclusive industry, we will do our part by engaging firms that reinvest into the Black community."

- Mark Mason, CFO, Citi



Deepening Our MDI Engagement

The seminal events of 2020 – the global COVID-19 pandemic and the spotlight on persistent racial injustice in the U.S. – forced us to reflect upon our role and influence as a financial institution. With a new sense of urgency, we asked: What more can we do to support communities of color, especially given the disproportionate impact of the pandemic? As we assessed the landscape, we recognized an opportunity to deepen our commitment and investments to improve liquidity among MDIs that are meeting the needs of clients.

Citi quickly responded by setting up a \$50 million loan facility to purchase PPP loans from MDIs, freeing up capital and room on their balance sheets for further investments in their communities. For the first round, Citi purchased \$10.6 million of PPP loans from MDIs, including First Independence Bank, Liberty Bank, Industrial Bank, Citizens Trust Bank and Unity National Bank of Houston.

As protests for racial justice intensified across the U.S., Citi businesses came together to develop solutions that would move the needle on the racial wealth gap in the U.S. We responded with [Action for Racial Equity](#) – a comprehensive framework that includes more than \$1 billion in strategic initiatives to help close the racial wealth gap and increase economic mobility in the U.S. Action for Racial Equity represents an unprecedented effort to leverage Citi’s core business capabilities alongside the Citi Foundation’s philanthropic efforts to combat the impacts of racism on our economy and drive systemic change. The initiative has four pillars and goals, and MDIs are critical partners across each of them.

Simultaneously, the OCC established Project REACH, Roundtable for Economic Access and Change, which convenes leaders from the banking industry, national civil rights organizations, business, and technology to reduce specific barriers that prevent full, equal, and fair participation in the nation’s economy. Through our engagement, Citi became one of the first institutions to sign onto the Project REACH MDI Pledge, making a commitment to invest in an MDI, provide technical assistance, identify business opportunities targeted to expand the MDI’s reach and impact within its communities, support executive development, and commit resources to support the MDI’s operations and customers.

“These small banks define how they want to work with us. We don’t tell them what Citi can do for them. They tell us what they want help with, and we work with them to meet their strategy needs. We want to open opportunities for them and for Citi, it’s about bringing these banks to the conversation.”

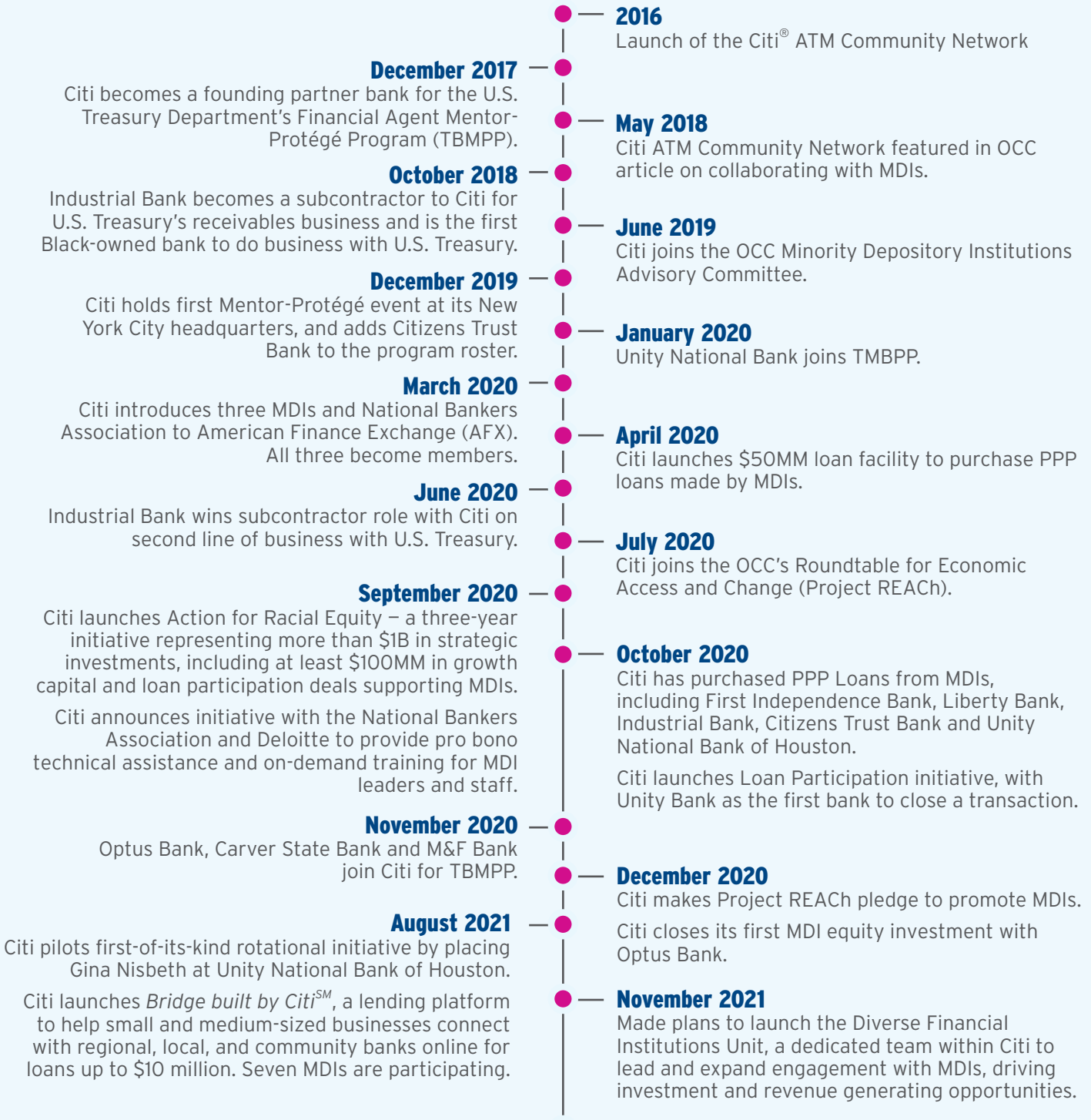
- Harold Butler, MDI Engagement and Managing Director, Citi Public Sector Group



Action for Racial Equality Our Goals

- 1 Providing **greater access to banking and credit** in communities of color
- 2 **Increasing investment** in Black-owned businesses
- 3 **Expanding homeownership** among Black Americans
- 4 **Advancing anti-racist practices** in the financial services industry

MDI Engagement Milestones



Today
Citi implementing comprehensive approach with MDIs including equity investments, revenue generation opportunities and promoting growth scale and human capital investments.

Where We are Today

We are Responding to MDI Priorities

Small banks, such as MDIs, have smaller balance sheets. Their limited capital to underwrite larger loans can naturally limit the transactions in which they engage. Yet, all banks need scale to ensure sufficient resources for technology, compliance and other investments necessary to remain competitive. In order to grow, a key goal for MDIs is to gain access to new business opportunities, including government contracts, loan participation and credit assignments, all of which can generate critical revenue. Further, to execute these opportunities and to ensure long-term sustainability, banks seek investments in human capital. Citi has doubled down on our existing relationships with MDIs and created new ones to expand our reach and help address these priorities. To support this approach, Citi has made plans to launch the Diverse Financial Institutions Unit, a dedicated team within Citi serving as a hub to lead and expand engagement with MDIs, driving investment and revenue generating opportunities.

We are Collaborating

This is a moment for collaboration rather than competition. Citi recognizes and applauds the flow of equity to MDIs from partners in the industry. We know that, when combined with our peers, we are doing something truly meaningful to strengthen the financial services industry. We also engage in multi-sector efforts led by the OCC and others to catalyze collective commitments and sharing of best practices to further support investments in MDIs.

We are Offering More Than Just Equity

Direct equity investments are important, but they are not enough. Our approach is about more than just providing equity, we deliver a comprehensive method designed to help strengthen MDI partner balance sheets through equity investments, and maximize those investments through additional revenue growth and capacity building opportunities.

From up to \$50 million in direct equity investments and inviting MDIs into up to \$50 million in loan participation opportunities, to onboarding MDIs as correspondent lenders and providing MDIs with access to Citi employees for advice and support, we are committed to comprehensive engagement. Our goal is to support MDIs to accelerate their transformation agendas and reach deeper into the communities they serve. We view MDI participation in many of these initiatives as a stepping-stone to further collaboration.

“It isn’t just what we can do to enable MDIs but what we can learn from our partnerships with them... and it will help us to better serve households that need to focus on wealth accumulation.” - Brandee McHale, Head of Community Investing and Development at Citi and President of the Citi Foundation.



Our Approach

Equity Investments

Providing MDIs with up to \$50 million in growth capital to strengthen their ability to serve racially diverse households and entrepreneurs



Revenue Generation Opportunities





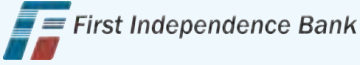

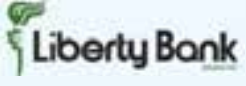





- Extending invitations to participate in select project-based lending opportunities, including affordable housing
- Providing opportunities to become correspondent lenders to increase mortgage products and services available to the clients of MDIs
- Invitations to participate in supplier finance relationships with existing corporate clients
- Facilitating contract-based revenue for MDIs as subcontractors on existing Citi federal business lines, including the U.S. Department of the Treasury
- Alleviating one of the biggest barriers to banking by removing out-of-network fees at Citibank ATMs for customers of participating MDIs
- Helping MDIs connect with small and medium-sized businesses online through the *Bridge built by CitiSM* platform

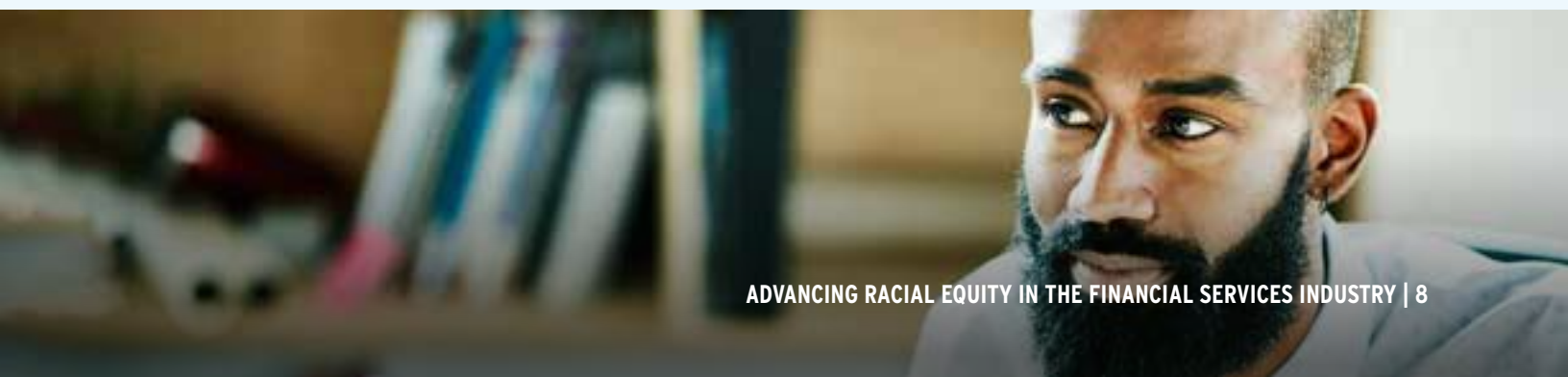


Promoting Growth, Scale and Human Capital Investments

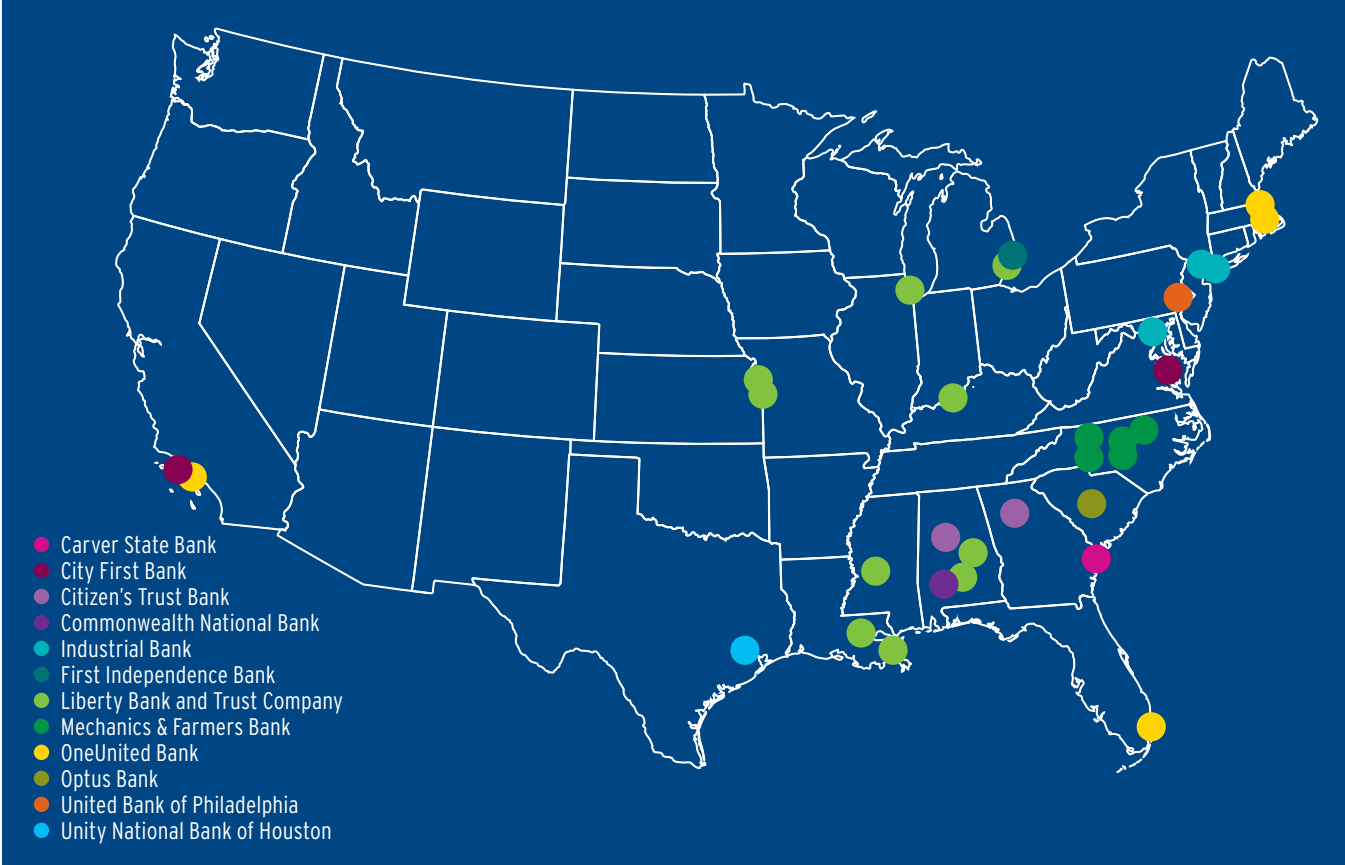
- Mentoring MDIs to consider how best to evolve their business models to remain competitive through the Mentor-Protégé Program
- Building out an online certificate-based learning platform that provides MDIs with banking-related instruction
- Providing pro-bono technical assistance, training and a digital learning platform to MDIs—through a collaboration with Deloitte and the National Bankers Association --to support MDIs' talent development, enhance technology, and expand business networks and corporate board seats
- Collaborating on brand and communications efforts, such as the creation of advertising, shared media opportunities and marketing materials



	Equity Investments	Lending Opportunities	Technical Assistance	Federal Contracts	SBA PPP Purchases	Mentor-Protégé	Marketing and Communications Efforts	Bridge built by Citi SM
								
								
								
								
								
								
								
								
								
								
								
								



Meet the Black MDI Banks Collaborating with Citi



Carver State Bank Carver State Bank*

As Carver State Bank’s mentor in the U.S. Department of the Treasury’s Mentor-Protégé Program, Citi provides expertise and guidance on how to evolve and remain competitive. To deepen our collaboration, Citi closed an equity investment in Carver State Bank and is participating in ongoing client conversations alongside their team. Through pro-bono technical assistance delivered in collaboration with Deloitte and the National Bankers Association, Citi is helping to strengthen Carver State’s access to talent pipeline development initiatives and corporate board seats. Carver State Bank is also expanding its customer base via the Bridge built by Citi platform. | <https://www.carverstatebank.com/>

cityfirstbank City First Bank

In 2021, Broadway Federal Bank, f.s.b. completed a merger of equals with City First Bank, N.A. Citi’s equity investment in Broadway Financial Corporation, the surviving publicly traded depository holding company, will increase the combined company’s commercial lending capacity for investments in multi-family affordable housing, small businesses, and nonprofit development in financially underserved urban areas. The surviving bank, City First Bank, N.A., is now the nation’s largest Black-led Minority Depository Institution (\$1B+ in total assets as of 6/30/21) with dual headquarters in Washington, DC and Los Angeles, CA. | <https://www.cityfirstbank.com/>

**Denotes relationship through the Department of the Treasury’s Mentor-Protégé Program*



Citizens Trust Bank*

Since 2019, through the U.S. Department of the Treasury's Mentor-Protégé Program, Citi has collaborated with Citizens Trust Bank to provide expertise and guidance on how to evolve and remain competitive. To date, Citi has continued to engage Citizens Trust Bank to deepen our collaboration by underwriting an equity investment, engaging Citizens Trust on Bridge built by Citi platform to provide access to a broader customer base, exploring supplier finance relationships with corporate clients, offering airline industry guidance from in-house experts, participating in ongoing client conversations and purchasing US Small Business Administration Paycheck Protection Program (PPP) loans through our facility. In order to prepare for long-term growth, Citizens Trust Bank has access to pro-bono technical assistance delivered in collaboration with Deloitte and the National Bankers Association to strengthen access to talent pipeline development initiatives and corporate board seats. In addition, Citi and Citizens Trust Bank are collaborating on talent acquisition efforts by exposing high-achieving students of color to banking as a career. | <https://ctbconnect.com>



Commonwealth
NATIONAL BANK

Commonwealth National Bank

In 2021, Commonwealth National Bank began participating in Bridge built by Citi platform to access a broader customer base. | <https://www.ecommonwealthbank.com>



First Independence Bank

First Independence Bank*

In 2020, Citi created a purchasing facility to buy loans in the secondary market from MDIs under the U.S. Small Business Administration (SBA) Paycheck Protection Program (PPP). Citi's purchasing facility assumed SBA loans from First Independence Bank. | <https://www.firstindependence.com>



Liberty Bank

Liberty Bank and Trust Company

In 2021, Citi is engaging Liberty Bank on select project-based lending opportunities, including loan participation. To help boost revenue generation, Citi provided a direct equity investment, is engaging Liberty Bank on Bridge built by Citi platform to provide them with access to a broader customer base and purchasing U.S. Small Business Administration (SBA) Paycheck Protection Program (PPP) loans through our facility. In addition, Citi and Liberty Bank are collaborating on talent acquisition efforts by exposing high-achieving students of color to banking as a career. | <https://www.libertybank.net/>

M&F Bank Mechanics & Farmers Bank*

Citi collaborates with Mechanics & Farmers (M&F) Bank on the U.S. Department of the Treasury's Mentor-Protégé Program, providing expertise and guidance on how to evolve and remain competitive. In 2021, Citi closed an equity investment with M&F Bank and is continuing to support its growth through collaborative client meetings, supporting talent acquisition initiatives, and engaging M&F Bank on the Bridge built by Citi platform. To expand Citi's engagement with MDIs, Citi's Trade Asset Distribution Team is piloting an effort that will bring MDIs to participate as investors in the Supply Chain Finance offering. Mechanics & Farmers Bank is the first institution onboarded as part of this initiative. They successfully joined and funded a participation in a sizable program with a major US based retailer. | <https://www.mfbonline.com/>

*Denotes relationship through the Department of the Treasury's Mentor-Protégé Program



Spotlight on Citi's Collaboration with Industrial Bank*

Since opening in 1934, Industrial Bank has grown to become one of the largest minority-owned banks in the U.S., with assets of more than \$570 million.

In 2018, acting on the U.S. Department of the Treasury's commitment to achieving a more inclusive network of Financial Agents, and Citi's own commitment to increase supplier diversity and collaborate with MDIs, we worked with Treasury to establish Industrial Bank as the first partner bank in the Department of the Treasury's Mentor-Protégé Program. As part of the initiative, Citi collaborated with Industrial to develop a joint proposal for the re-bid of the Treasury's Bureau of Fiscal Service OTCnet application, which automates point-of-sale, over-the-counter check deposit processes by capturing deposit-ready images. For the past decade, Citi had been responsible for day-to-day management of OTCnet, which processes \$100 billion in deposits annually. By collaborating with Citi on the bid, Industrial became a full OTCnet partner, making it the first Black-owned bank in history to serve as a federal subcontractor.

To date, Citi has continued to engage Industrial to deepen our collaboration by generating revenue through select project-based loan participation opportunities, a direct equity investment, exploring participation in supplier finance relationships with existing corporate clients and purchasing U.S. Small Business Administration Paycheck Protection Program (PPP) loans from Industrial through our facility.

In order to prepare for long-term growth, Industrial has access to pro-bono technical assistance delivered in collaboration with Deloitte and the National Bankers Association to strengthen Industrial's access to talent pipeline development initiatives and corporate board seats.

"Traditionally Black people have been shut out of the financial system. My grandfather started Industrial Bank in 1934 so Black people would have a bank that would work with them. Because our doors are opening, other doors are opening to opportunities for our community. We're excited to work with Citi so we can realize our dreams of expanding our reach and impact." – Doyle Mitchell Jr., President and CEO of Industrial Bank

<https://www.industrial-bank.com/>



 **OneUnited Bank**. OneUnited Bank*

As OneUnited Bank's mentor in the U.S. Department of the Treasury's Mentor-Protégé Program, Citi provides expertise and guidance on how to remain competitive. To boost revenue generation, Citi is engaging OneUnited to explore supplier finance relationships with corporate clients. Citi and OneUnited are also working on talent acquisition by exposing high-achieving students of color to banking as a career. | <https://www.oneunited.com/>

 **OPTUS**
BANK Optus Bank*

Through the U.S. Department of the Treasury's Mentor-Protégé Program, Citi provides Optus Bank with expertise and guidance on how to remain competitive. In 2020, Citi closed an equity investment with Optus. In order to deepen our collaboration, Citi is exploring how Optus can participate in supplier finance relationships with corporate clients, engaging Optus on Bridge built by Citi platform to provide them with access to a broader customer base and supporting talent acquisition by exposing high-achieving students of color to banking as a career. | <https://www.optus.bank/>

 **UNITED BANK**
OF PHILADELPHIA United Bank of Philadelphia*

Through the U.S. Department of the Treasury's Mentor-Protégé Program, Citi provides United Bank of Philadelphia with expertise and guidance on how to remain competitive. To help boost revenue generation, Citi provided a direct equity investment and is engaging United Bank of Philadelphia on Bridge built by Citi platform to help expand their customer base. United Bank of Philadelphia also receives pro-bono technical assistance delivered in collaboration with Deloitte and the National Bankers Association to strengthen access to talent pipeline development initiatives and corporate board seats. | <https://www.ubphila.com/>

**Denotes relationship through the Department of the Treasury's Mentor-Protégé Program*





Spotlight on Citi's Collaboration with Unity Bank*

Through the U.S. Department of the Treasury's Mentor-Protégé Program, Citi provides Unity National Bank of Houston with expertise and guidance on how to remain competitive. Citi has also supported growth capital opportunities for Unity by providing an equity investment and inviting Unity in on select project-based affordable housing lending opportunities including a loan for 381 affordable housing units in Texas.

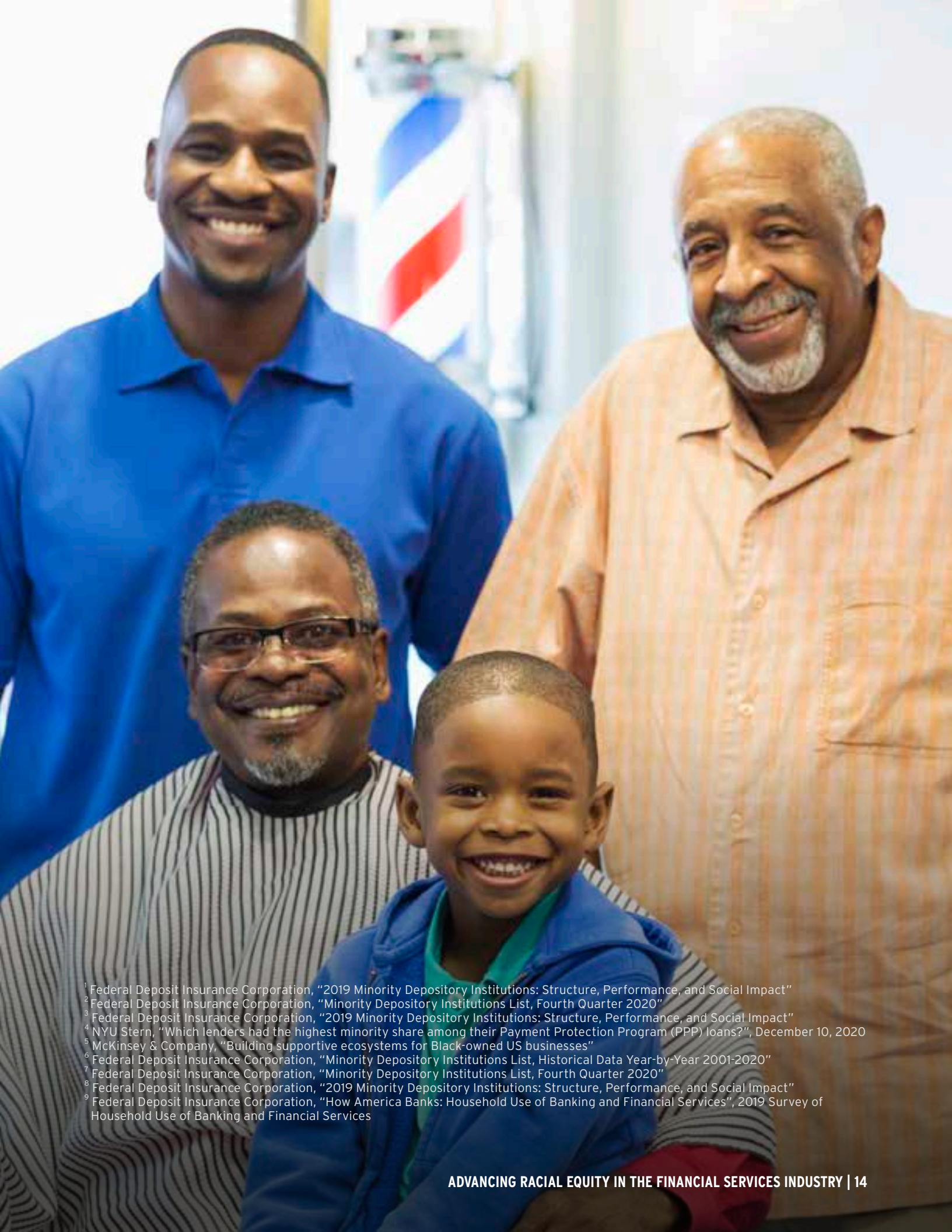
Citi has continued to deepen our collaboration with Unity by engaging them on the Bridge built by Citi platform, providing contract-based revenue to Unity acting as subcontractors on existing Citi federal business lines, and U.S. Small Business Administration Payment Protection Program (PPP) loan purchases through our facility. In order to help Unity prepare for long-term growth, Citi is also collaborating on shared media and client conversations and supporting talent acquisition by exposing high-achieving students of color to banking as a career. Further, pro-bono technical assistance delivered in collaboration with Deloitte and the National Bankers Association is helping Unity to strengthen access to talent pipeline development initiatives and corporate board seats.

In 2021, Citi doubled down on its collaboration with Unity by piloting the Citi Rotational Program, which embeds a Citi executive within an MDI. Citi's Gina Nisbeth is now working at Unity with the mandate to support revenue generation through the New Markets Tax Credit Program and expanding their affordable housing work.

"I have the once-in-a-lifetime opportunity to help strengthen the vitality of an institution that is culturally significant to the Black community. At Citi, we have a real commitment to support the communities we serve, but this program has helped me take that commitment to the next level. What's even better is I am learning so much from the experience too." – Gina Nisbeth, Director, Global Spread Products at Citi and Inaugural Participant in the Citi MDI Rotational Program



<https://www.unitybank.com/>



¹ Federal Deposit Insurance Corporation, "2019 Minority Depository Institutions: Structure, Performance, and Social Impact"

² Federal Deposit Insurance Corporation, "Minority Depository Institutions List, Fourth Quarter 2020"

³ Federal Deposit Insurance Corporation, "2019 Minority Depository Institutions: Structure, Performance, and Social Impact"

⁴ NYU Stern, "Which lenders had the highest minority share among their Payment Protection Program (PPP) loans?", December 10, 2020

⁵ McKinsey & Company, "Building supportive ecosystems for Black-owned US businesses"

⁶ Federal Deposit Insurance Corporation, "Minority Depository Institutions List, Historical Data Year-by-Year 2001-2020"

⁷ Federal Deposit Insurance Corporation, "Minority Depository Institutions List, Fourth Quarter 2020"

⁸ Federal Deposit Insurance Corporation, "2019 Minority Depository Institutions: Structure, Performance, and Social Impact"

⁹ Federal Deposit Insurance Corporation, "How America Banks: Household Use of Banking and Financial Services", 2019 Survey of Household Use of Banking and Financial Services

To learn more, visit Citi.com/racialequity



© 2021 Citigroup Inc. All rights reserved.
Citi, Citi and Arc Design and other marks used herein are service marks of Citigroup Inc.
or its affiliates, used and registered throughout the world.