



NCUA
National Credit Union Administration

Minority Depository Institutions Annual Report to Congress

2018

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2018 Annual Congressional Report on Minority Depository Institutions

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Executive Summary

The National Credit Union Administration is pleased to submit its sixth annual Minority Depository Institutions Report to Congress. This report describes the composition and financial performance of the minority depository institutions supervised by the NCUA during 2018 and the agency's actions to preserve and promote them. The report includes examples of the NCUA's work to illustrate the importance of these credit unions to their members and communities. The NCUA submits its report pursuant to Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 and Section 367 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

MDI Credit Unions

- Approximately 10 percent of all federally insured credit unions are minority depository institutions; as of December 31, 2018, the NCUA supervised 529 MDI credit unions located in 37 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.
- At the end of 2018, MDI credit unions served 3.9 million members, had aggregate deposits of \$33 billion, and held \$26.8 billion in loans.
- MDI credit unions tend to be smaller institutions; 87 percent report total assets of \$100 million or less.
- MDI credit unions are generally well-capitalized; as of December 31, 2018, 507 MDI credit unions, or more than 95 percent, reported a net worth ratio of at least 7 percent.
- Seventy-nine percent of MDI credit unions also have the low-income credit union designation.
- The number of MDI credit unions has declined from 563 at the end of 2017 to 529 at the end of 2018, largely the result of mergers.
- In 2018, MDI credit unions, as a group, underperformed in all growth categories—including assets, membership, shares, loans, and net worth—compared to low-income credit unions, small credit unions, and federally insured credit unions overall. This was largely due to declining membership and member shares.

The NCUA's MDI Preservation Program

- Provided, in 2018, 31 low-income-designated MDI credit unions with \$284,200 in Community Development Revolving Loan Fund grants.
- Approved field-of-membership expansions for 28 MDIs, allowing them to add more than 650 groups or geographic areas to their membership.
- Launched an outreach campaign to increase the number of MDI credit unions and received feedback from MDIs about their unique challenges and needs.



Introduction

The NCUA is the independent federal agency that charters and supervises federal credit unions. The agency's purpose is to ensure a safe and sound national system of cooperative institutions that encourage thrift and offer a source of credit to their members.

The NCUA protects the safety and soundness of the credit union system by identifying, monitoring, and reducing risks to the National Credit Union Share Insurance Fund. Backed by the full faith and credit of the United States, the Share Insurance Fund insures the accounts of more than 116 million credit union members.¹

The NCUA's Office of Credit Union Expansion and Resources is responsible for administering the Minority Depository Institutions Preservation Program. CURE offers support services to foster credit union development, with a particular focus on low-income-designated credit unions and minority institutions. CURE is responsible for:

- Chartering and field-of-membership;
- Grant and loan programs, including administration and management of the Community Development Revolving Loan Fund;
- MDI Preservation Program; and
- Training.

Some CURE programs, such as grant and loan funding, have specific eligibility requirements, while others, such as training, are open to all credit unions.

MDI Overview

Credit unions are member-owned-and-controlled, not-for-profit, cooperative financial institutions formed to give groups of people access to affordable financial services and participate in their institutions' management. A credit union's designation as an MDI is defined by the minority composition of its current and potential membership and the minority composition of their boards of directors. Minority depository institutions serve the financial needs of racial minorities because such populations traditionally have been underserved by financial institutions. The NCUA understands the significant value these credit unions represent to their members and communities and the challenges they face.

¹ According to December 31, 2018, federally insured credit union Call Reports.



MDI Financial Facts and Trends

As of December 31, 2018, the NCUA regulated or supervised 529 MDI credit unions with total assets of \$38.47 billion.

There were 34 fewer MDI credit unions than on December 31, 2017. The declining trend in the number of MDIs mirrors the decline in the number of federally insured credit unions overall.

Mergers accounted for 62 percent of the decrease in the number of MDIs. Twenty-four percent of the continuing credit unions were MDIs. The desire to offer expanded services to members is the reason given by 57 percent of MDIs that decided to merge during 2018. Twenty-four percent cited poor financial condition, followed by an inability to attract officials at 14 percent, and lack of growth at 5 percent.

MDIs, as a group, underperformed the low-income, small and all federally insured credit union groups in all categories of growth, including assets, membership, member shares, loans, and net worth. The driving factor was the loss in membership and member shares. MDIs lost almost 420,000 members, resulting in a decline of \$3.1 billion in shares. Since membership in federally insured credit unions increased by almost 5 million, the loss in MDI membership, due to mergers or other reasons, appears to have been absorbed within the credit union system.

During 2018, MDIs maintained a high net worth ratio, second only to small credit unions. Having sufficient net worth, or capital, is an indicator of a credit union's financial health, because these funds help absorb losses. MDIs showed improved asset quality, with loan delinquency and charge-off percentages lower than at year-end 2017, despite modest loan growth.

MDIs provided \$26.8 billion in loans to the individuals and communities they serve. The loans were primarily concentrated in mortgages and vehicle loans, each comprising approximately 40 percent of aggregate loans. Sixty-seven percent of first mortgages offered by MDIs were fixed-rate loans, compared with only 57 percent offered by all federally insured credit unions. Compared with the national average for credit unions, MDIs provide relatively greater percentages of funding for vehicles and unsecured loans.

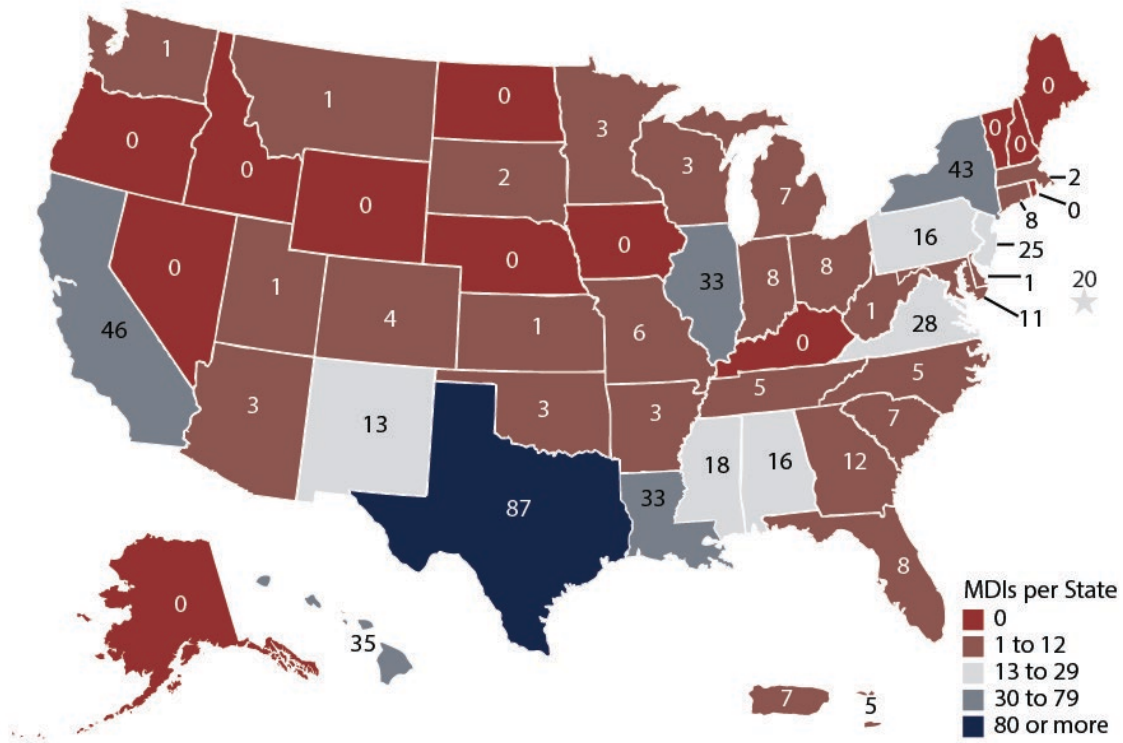
For more details, see Appendix I, "Financial Trends in Minority Depository Institutions."



MDIs-At-A-Glance

Approximately 10 percent of all federally insured credit unions are designated as MDIs. This section provides an overview of that presence.²

Total Number of Minority Depository Institutions by State

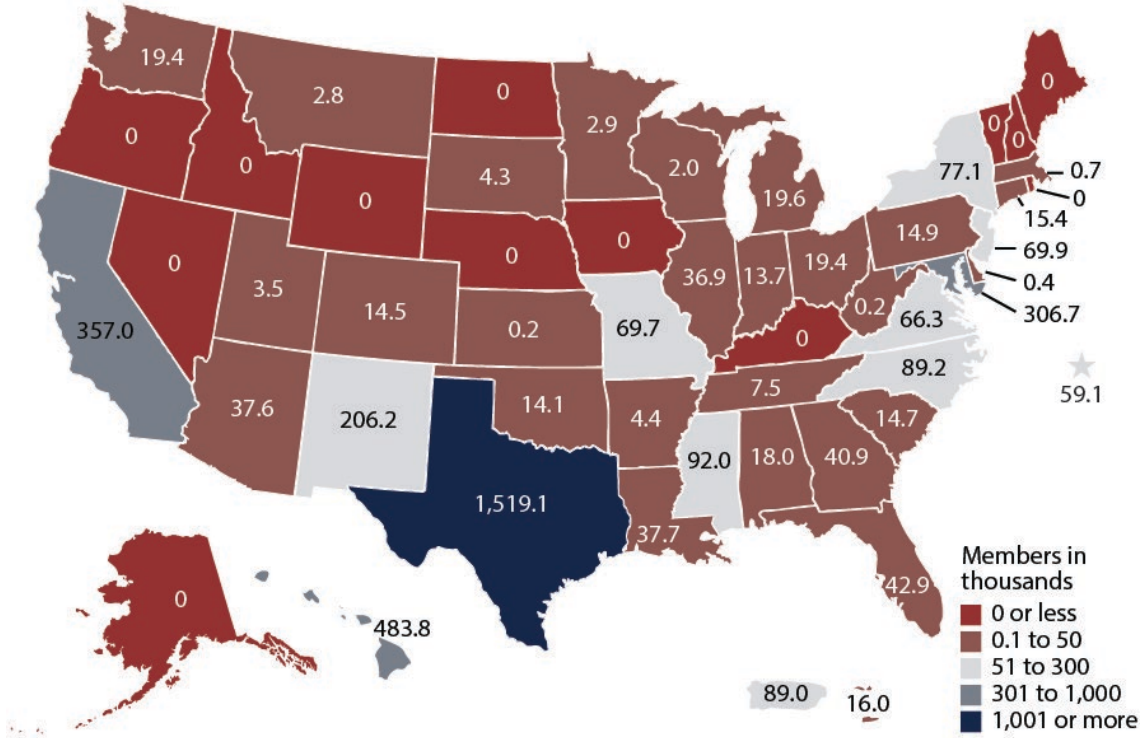


The map above shows the geographic distribution of the number of credit unions throughout the country; the star indicates the District of Columbia. MDIs are located in 37 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. Texas, California, New York, Hawaii, Illinois, and Louisiana have the highest number of MDIs. The star represents the District of Columbia.

² Based on the Call Reports and Credit Union Online Profiles as of December 31, 2018.



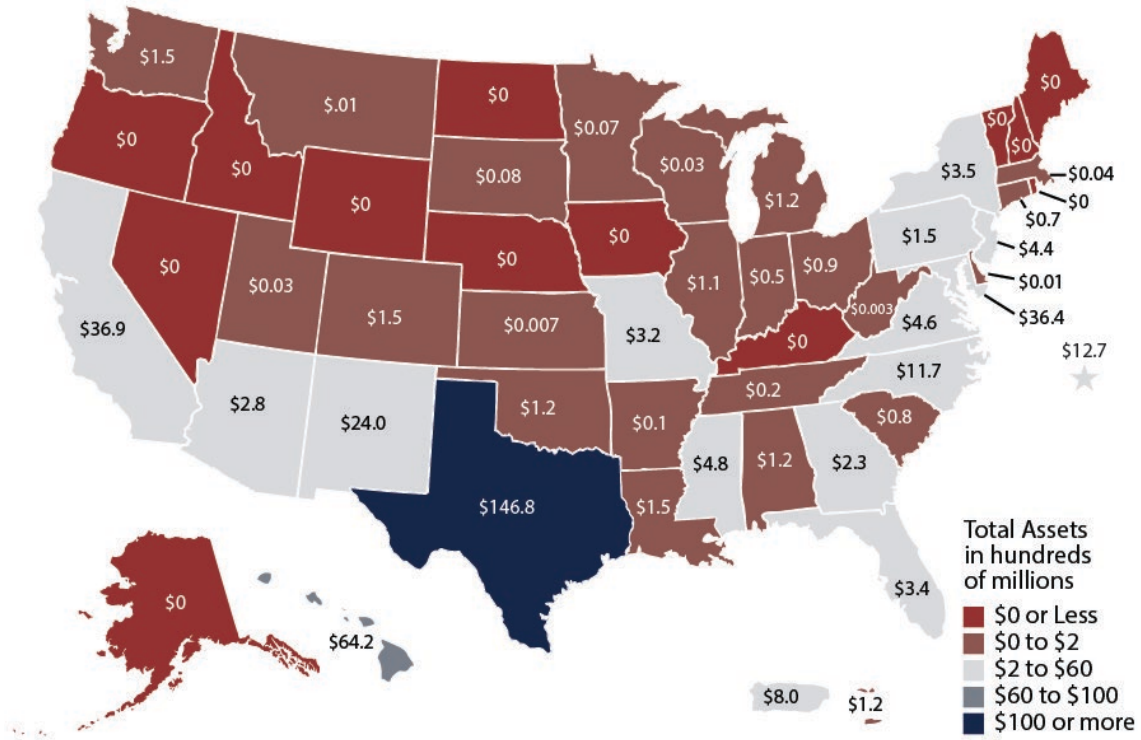
Total Number of Minority Depository Institution Members



The map above shows the distribution of MDI members in aggregate, by state. Collectively, MDIs serve 3.9 million members. Texas has the largest number of members with more than 1.5 million, followed by Hawaii, California, Maryland, and New Mexico. The star represents the District of Columbia.



Total Minority Depository Institution Assets (in hundreds of millions of dollars)



The map above shows the geographic distribution of aggregate MDI assets in individual states, in hundreds of millions of dollars. Texas MDIs have the largest asset total, followed by Hawaii, California, Maryland, New Mexico, the District of Columbia, and North Carolina, which each have more-than \$1 billion in aggregate assets. The star represents the District of Columbia.

The MDI Preservation Program

The NCUA Board approved its Minority Depository Institution Preservation Program in June 2015. The final policy statement details the program’s objectives for preserving and encouraging minority depository institutions in accordance with the goals set forth in the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. These goals are consistent with the NCUA’s mission and strategic goal of ensuring a safe, sound, sustainable credit union system.

The NCUA’s MDI program provides needed support to credit unions that serve communities and individuals who may lack access to mainstream financial products and



services. The NCUA does this through the work of field staff who work directly with credit unions in the regular course of their regulatory supervision and the support services offered through CURE.

A federally insured credit union may self-designate as an MDI through the NCUA's Credit Union Online Profile. The credit union must affirm that more than 50 percent of its current members, eligible potential members and board of directors are from one of the four minority categories specified under the law. The NCUA relies on FIRREA Section 308's definition of "minority," which identifies an eligible minority exclusively as any Asian American, Black American, Hispanic American, or Native American.

Here is an example of how an MDI operates within its community:

This MDI is a large, low-income-designated credit union located in the NCUA's Western region. The credit union's membership is largely comprised of Spanish and Portuguese speaking individuals. The management noticed many members were farm workers who were uncertain about banks, and as a result, were unbanked. The credit union introduced a youth program that has benefited this membership segment. It established a branch at a local high school with a program that features a unique curriculum involving students in work-based learning.

Three years following the program's inception, many students trained their parents to understand and trust the credit union. As a result, membership in the credit union and loan demand increased. The credit union plans to continue its partnership with the school district and explore the possibility of expanding the program to additional high schools.

Preserving the Number of Minority Depository Institutions **Field-of-membership expansion**

Growing and expanding existing MDIs is one of the most significant ways to preserve the number of MDIs. During 2018, the NCUA approved field-of-membership expansions for 28 MDIs, allowing the credit unions to add more than 650 groups or geographic areas to their membership.³

³ A credit union's field of membership represents the legal definition of who is eligible to join. Credit unions often want to expand their fields of membership to include additional potential members. A federally chartered credit union must receive approval from the NCUA prior to changing its field of membership. Excerpt from "[Field-of-Membership Expansion](#)," Support Services section of the NCUA website, April 1, 2019.



Here are two examples of how the NCUA assisted MDIs to expand the capacity to serve more members, one through a regulatory procedure and the other through funding in the form of a grant:

A credit union succeeded in securing necessary financial commitments to fund its growth strategy over the next several years. The credit union's membership primarily consists of low-income residents, religious congregations, businesses, and nonprofits. The NCUA's Special Actions staff worked with the credit union to obtain approval of its secondary capital plan, which was essential to its strategy to expand into geographic areas no longer served by banks.

A low-income-designated MDI used grant funding to improve outreach with the goal of expanding membership through collaborating with community groups. It updated its brochures, business cards and other marketing material to present when performing outreach to other church and community organizations. The credit union also hopes to offer auto loans to increase income because of the expanded membership.

Identifying new MDIs

The second way to preserve the number of existing MDIs is to increase the number of credit unions that meet the definition of an MDI. During 2018, the NCUA launched an outreach campaign to help identify new MDIs and encourage current MDIs to update their status through the online profile described above. Following is a snapshot of one in a series of tweets the agency issued during Minority Enterprise Development Week.⁴

Tweets in the series included:

- MDI Credit Unions Update Your Call Report Profile – Oct. 23 and 30
- MDI Credit Unions By The Numbers – Oct. 23
- MDIs Are A Diverse Group – Oct. 19
- Did You Know..., – Oct. 18
- Are You Familiar with MDIs or Their Mission – Oct. 16

⁴ Minority Enterprise Development Week is sponsored in part by the Minority Business Development Agency of the U.S. Department of Commerce.



The NCUA 
@TheNCUA Follow 

Federally insured #creditunions must submit their Call Report Data and Credit Union Profile by Oct. 28. MDI #creditunions, when updating their call report information, should pay close attention to pages 8 and 11 bit.ly/1OlgGsw

MDI Credit Unions Update Your Call Report Profile 

Minority Depository Institution Questions

1. Are more than 50% of your credit union's current and eligible potential members Black American, Native American, Hispanic American, or Asian American? If yes, please identify the minority group(s) that apply:

<input type="checkbox"/> Black American	<input type="text"/>	Hispanic American
<input type="checkbox"/> Native American	<input type="text"/>	Asian American

2. Is more than 50% of your credit union's board of directors Black American, Native American, Hispanic American, or Asian American? If yes, please identify the minority group(s) that apply:

<input type="checkbox"/> Black American	<input type="text"/>	Hispanic American
<input type="checkbox"/> Native American	<input type="text"/>	Asian American

Direct feedback

CURE sought direct feedback from MDIs about the challenges of serving their members and related needs for services.

The survey was designed to help ensure the agency's services are responsive to the needs of the credit unions consistent with FIRREA Section 308. The MDIs provided information about their challenges and needs for services as well as suggestions for engaging with CURE.⁵

Chief executive officers, managers, board members, and staff of 135 MDIs responded to the survey. The agency also surveyed 25 examination staff who frequently work

⁵ The results of this survey were qualitative in nature and are not generalizable to the population of the study.



with MDIs.

Preserving the Character of Minority Depository Institutions

During 2018, 21 MDIs merged into other credit unions. Five of the continuing credit unions, 24 percent, were also MDIs. In total, MDI mergers represented 12 percent of all mergers of federally insured credit unions during 2018.⁶

While the NCUA's work in this area is highly confidential to preserve the interests of all parties involved, agency staff who work directly with credit unions are frequently in contact with and providing guidance to the board and management throughout a merger, from initial consideration through transfer.

Providing Technical Assistance to Prevent Insolvency

A credit union defined by NCUA regulations as “undercapitalized”—meaning it has a net worth ratio of four percent or more but less than six percent or fails to meet any applicable risk-based net worth requirement—is required to submit a net worth restoration plan to the agency.⁷ CURE and examination staff work with credit unions in this area to restore them to an acceptable level of capital.

Two examples of the NCUA's efforts with MDIs in this area:

A credit union was returned to viability, generating positive earnings, after an NCUA examiner worked with management and officials to implement its strategic business plan. The plan was developed after the long-time former CEO retired. Under the prior management, the credit union was not earning enough to cover its operating expenses. After several years of losses, the credit union was faced with the possibility of merger. The examiner suggested the credit union seek opportunities to participate in loans with other financial institutions to improve earnings. Credit union officials implemented the plan, including pursuing loan participation opportunities.

A credit union improved its business practices and internal controls and became sustainably profitable for the first time in several years. The NCUA identified concerns in several areas—including loan underwriting, budgeting, and strategic planning—and staff worked with the credit union to make improvements.

⁶ The NCUA's Rules and Regulations allow all credit union members to comment on the proposed merger of two federally insured credit unions.

⁷ The NCUA's Rules and Regulations 702.102 address statutory net worth categories.



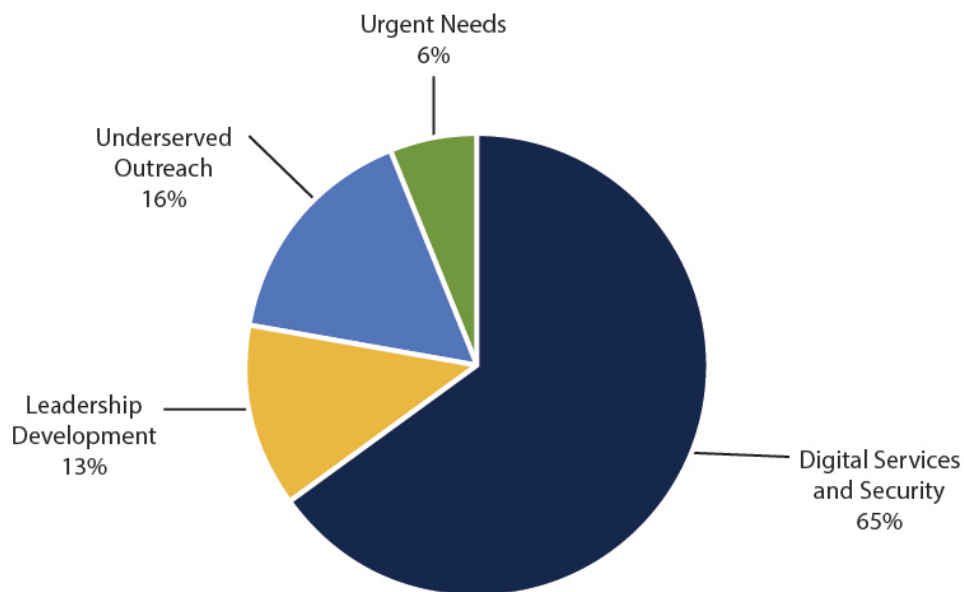
Providing Funding, Technical Assistance, Training, and Educational Programs

The NCUA supports MDIs by providing funding, technical assistance, and other services to promote and preserve these financial institutions consistent with the requirements of Section 308 of the FIRREA. MDIs are leveraging these resources to improve their delivery of financial services despite the challenges of serving what may be difficult-to-serve communities and populations.

Funding

The NCUA awarded 31 CDRLF grants totaling \$284,200 to MDIs during 2018. All of the MDIs were low-income-designated credit unions. Nine of the credit unions, almost 30 percent, were first-time grant recipients. The majority of the awardees, 87 percent, were small credit unions with assets below \$100 million. See Appendix 2 for a list of the MDI awardees.

2018 Grants to MDIs By Funding Initiative



The chart above shows the distribution of award amounts to MDIs, by funding initiative.



An initiative specifies the uses for which the funds may be used. The 2018 initiatives included:

- **Digital Services:** Improving financial services provided to members such as through online and mobile application platforms to access credit union products and services and expand the credit union’s capacity to serve underserved communities.
- **Leadership Development:** Developing the next generation of credit union executives, managers, and leaders such as through developing innovative programs to provide credit union staff of the Millennial-generation with comprehensive training in core credit union functions.
- **Underserved Outreach:** Implementing new programs tailored to underserved groups such as first-time homebuyer programs and alternatives to predatory lending products for members who reside in economically disadvantaged communities.
- **Urgent Needs:** Helping to restore credit union operations following a natural disaster or unexpected emergency by covering costs to help restore operations in cases of actual or impending disruption.

Examples of what MDI credit unions accomplished through CDRLF funding are:

The Leadership Development initiative allowed the credit union an opportunity to offer mortgages to its members. Historically, the credit union referred its members to other institutions for mortgage products. It used the grant proceeds to acquire the necessary materials and staff training to directly offer home equity loans.

“We can make it easier for our members by personally working with them so that they can have peace of mind as they deal with people they know and trust,” a management executive said. This added service will benefit the membership through the ability to access such loans directly from the institution and the credit union by being able to grow its loan portfolio and potential earnings.



A credit union used the Leadership Development initiative to develop the skills of its current and potential leadership. Managers and board members underwent a series of trainings in areas such as successful credit union management, building and expanding credit union services and developing a succession plan.

A credit union used the Digital Services initiative to offer electronic statements to its members, allowing members a more convenient and secure method to retrieve and store periodic statements while reducing the credit union's printing and postage expenses.

A small credit union did not have the capacity to establish an in-house information technology department. It used the Digital Services & Security grant to hire a third party vendor to perform penetration and vulnerability testing of its network security. Through the tests, the credit union was able to provide its members assurance that its security posture and external production network are sufficient to protect against unauthorized access.

Technical Assistance

During 2018, the NCUA qualified six MDIs through an initiative between the NCUA and the U.S. Department of the Treasury's Community Development Financial Institutions Fund.⁸ The initiative streamlines the application process for low-income credit unions interested in being certified as community development financial institutions. The NCUA leverages existing data and processes the agency has as the primary regulator of federally insured credit unions. Once the NCUA determines a credit union qualifies for the streamlined application, it provides the credit union with information necessary to complete and submit a certification application to the CDFI Fund. The application requires less data and independent analysis than the traditional process. The CDFI Fund has the sole authority to determine an applicant's certification status.

CDFI certification is the U.S. Department of the Treasury's recognition of specialized financial institutions serving low-income and economically disadvantaged communities.⁹ Having the certification affords such organizations access to a variety of funding programs through the CDFI Fund. Such funding can help a credit union finance activities like mortgages for first-time homebuyers and commercial loans.

⁸ Joint Initiative Press Release: <https://www.ncua.gov/newsroom/Pages/news-2016-jan-community-development-financial-institutions.aspx>.

⁹ CDFI Certification Eligibility Requirements: <https://www.cdfifund.gov/programs-training/certification/cdfi/Pages/default.aspx>.



Training and Educational Programs

Training for credit union management, board members and staff is one of the cornerstone services CURE provides. During 2018, the agency updated its [Learning Management Service](#), which provides online access to training on a variety of credit union topics, such as governance, operations, and products and services. The LMS offers on-demand learning opportunities on many topics and is available free of charge to all credit unions.

Given the characteristics of most MDIs, the online access provides an affordable means to receive quality training at the convenience of the participant. Many of the examples throughout this report emphasize the significant role training has on MDIs' success.

Planned Activities in 2019

During 2019, the NCUA will continue to ensure the MDI Preservation Program is responsive to the challenges and needs of MDIs:

- Training targeted to MDIs on topics, including financial and statement analysis and credit union board responsibilities
- Continued efforts to increase the program's visibility and encourage new MDIs that will include a conference call series for MDIs and a separate series for NCUA staff featuring topics of concern to MDIs as well as a social media campaign for MDIs to update their CU Online Profile Forms.
- Internal program enhancements designed to help identify potential MDIs among organizer groups and support existing reporting tools.



Table of Acronyms

Acronym	Name
CDRLF	Community Development Revolving Loan Fund
CURE	Office Credit Union Expansion and Resources
FIRREA	Financial Institutions Reform, Recovery, and Enforcement Act of 1989
LID	Low-Income Designation
MDI	Minority Depository Institution
NCUA	National Credit Union Administration