STATEMENT OF

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on

HOLDING FINANCIAL REGULATORS ACCOUNTABLE FOR DIVERSITY AND INCLUSION: PERSPECTIVES FROM THE OFFICES OF MINORITY AND WOMEN INCLUSION

before the

SUBCOMMITTEE ON DIVERSITY AND INCLUSION

of the

COMMITTEE ON FINANCIAL SERVICES
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Chairwoman Beatty, Ranking Member Wagner, and members of the Subcommittee, thank you for the opportunity to testify today. My name is Nikita Pearson, and I serve as Acting Director of the Office of Minority and Women Inclusion (OMWI) at the Federal Deposit Insurance Corporation (FDIC).

As the nation's deposit insurer and primary supervisor of community banks, including Minority Depository Institutions (MDIs), the FDIC plays an important role in maintaining public confidence in the U.S. financial system. Part of that role includes ensuring that financial institutions treat consumers and depositors fairly, comply with anti-discrimination laws, and serve all parts of their communities.

Less than two weeks ago, I began serving in this critical position. OMWI is key to the FDIC's success. OMWI promotes and influences diversity, equal opportunity employment, and economic inclusion. We work to ensure the fair inclusion and use of minority- and women-owned businesses in all FDIC business activities. Before I discuss the FDIC's ongoing work in these areas, let me first offer a few words about why working at the FDIC and leading OMWI is not just another job for me.

As a Black woman, I have first-hand experience with discrimination and racism in its various pernicious forms. I grew up poor in Thomson, Georgia, where for a good portion of my life I lived with my great aunt and uncle who could not read or write. My great aunt cleaned homes, and my great uncle worked at the rock quarry. In the evenings, they would take my sister and me along with them to their second job, cleaning the banks in town.

A few years later, I distinctly remember accompanying my mother to one of those banks during normal business hours. My mother had applied for a loan, and I remember sitting there looking at the tears rolling down her face as the loan officer so disrespectfully denied her application. As I helplessly watched the exchange, my mother lowered her head in grief and despair. Even as a child, I knew what I was witnessing was wrong. The same bank that trusted my family enough to provide keys to clean it did not trust my mother enough to lend her money or at least deny the loan with dignity and respect.

This is just one experience that came to mind when FDIC recruiters came to Savannah State University, a historically black university, and spoke to my accounting class about the mission of the FDIC. While I had more financially lucrative job opportunities to consider, none of them compared to the important mission of the FDIC. As a public servant at the FDIC, I have the opportunity to influence policies and procedures that ultimately help to make sure that no person ever feels like my mother felt.

The reality is that before I ever became an FDIC employee, I had 22 years of experience as a Black woman. I know first-hand the impact of the decisions that financial institutions make, particularly in low-income communities. I have brought that lived experience with me to work every single day of my career. I spent 17 years in the examination workforce, and those experiences and perspectives made me a better examiner. After that, I moved to Washington, D.C., and spent the past five years overseeing human capital and financial management, among other areas. Those life experiences provided a unique perspective and unwavering commitment to ensuring that the FDIC's workforce is diverse and inclusive, reflecting the communities we serve, and respecting the value and contributions of all employees.

I am an example of how the FDIC advances our mission and serves minorities, both professionally and personally. Because of the growth opportunities the FDIC provided to me, I sit before you today as an executive who was previously on public assistance and became a mother at 19 years old. My career at the FDIC not only taught me about building a fair and inclusive financial system, my examiner training equipped me with the knowledge to buy my first home. I have shared the FDIC's financial literacy resources with family and friends, many of whom still live in low- and moderate-income communities. As a part of the FDIC's recruiting initiatives, I have been able to give back to my university and other historically black colleges and universities (HBCUs) and hire highly qualified candidates for both internships and permanent positions.

Most of these experiences I have kept to myself in a professional setting until Jelena McWilliams became Chairman of the FDIC. She made herself vulnerable by sharing how she was shaped by her personal experiences and how that perspective guided her commitment to increasing financial inclusion in underserved communities.

I. Diversity and Inclusion at the FDIC

Since the day she arrived, Chairman McWilliams has affirmed her commitment to diversity and inclusion by elevating the role of OMWI and cultivating a culture of excellence to further implement meaningful change. The FDIC is deeply committed to fostering a diverse workforce and inclusive work environment, both at the agency and across the financial services industry. Under Chairman McWilliams' leadership, we have taken meaningful steps in both areas, and I appreciate the opportunity to discuss our progress with you.

A. Recruitment, Retention, Workforce Development, and Culture

The racial, ethnic, and gender diversity of the FDIC workforce continues to steadily increase. At the end of 2019, minorities represented over 30 percent of the permanent workforce and women accounted for approximately 45 percent.[1] Representation has increased in both quantity and quality. The FDIC has also increased diversity across our leadership: minorities hold 22 percent of the management-level positions at the FDIC, and women hold 39 percent (up from almost 16 percent and 30 percent, respectively, ten years ago).[2] Likewise, the Chairman's senior leadership team comprises a diverse set of individuals (38 percent women and 29 percent minorities).[3] Notwithstanding this progress to close longstanding gaps, we know more needs to be done, and we are fully committed to doing it. We are not yet satisfied with our progress or the pace of change.

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[1] *See* FDIC Office of Minority and Women Inclusion, *Section 342 Dodd-Frank Wall Street Reform and Consumer Protection Act Report to Congress* (2019), available at https://www.fdic.gov/about/diversity/pdf/rtc32620.pdf.
[2] As of August 11, 2020.
[3] As of August 11, 2020.

A key challenge for the FDIC in promoting diversity at all levels of our workforce continues to be the ability to attract, retain, and advance minorities and women in our bank examiner workforce. The commissioned examiner occupation is the largest occupational group at the FDIC, accounting for almost half of the FDIC total workforce. Individuals who began their careers as entry-level examiners, like me, tend to occupy a significant percentage of executive and managerial leadership positions in the agency, as well as other non-examiner positions. Thus, representation rates within the examiner workforce are key to achieving satisfactory representation across the broader FDIC workforce.

Our ability to attract and retain examiners is affected by a number of factors, including the amount of travel, field office structure (87 office locations in smaller cities with frequent travel to institutions in rural areas), and low turnover. Prior to the pandemic, the average examiner spent 89 nights away from home. While I was an examiner, I missed my oldest daughter's first day of school and the moment my youngest daughter took her first steps because I was on assignment. As a new examiner, I lived in Savannah, Georgia, and traveled more than 60 miles one way to the field office because I was not comfortable living in the rural town where the office was located at the time.

Even with 22 years of experience under my belt at the FDIC, I am still considered somewhat "new." The average tenure at the FDIC is 25 years. Not surprisingly, this usually means more experienced employees are selected for promotional opportunities, and once selected, employees tend to stay in their positions for an extended period. This workforce dynamic provides the FDIC with incredible experience and industry knowledge, but it also means that the ability to compete and be selected for leadership opportunities were not as frequent as I would have liked.

Because of these dynamics, there were a number of times I thought about leaving my promising career at the FDIC. Many employees that started their careers in my examiner class, including a number of minorities and women, did leave. The FDIC could have looked at these challenges and accepted the status quo, but we did not. We decided to make progress instead of making excuses.

Upon Chairman McWilliams' arrival, she established a team to improve the way we recruit, hire, and onboard examiners. She also established an executive level taskforce to promote a diverse and inclusive examination workforce.

The FDIC's overall recruitment strategy was also strengthened with more targeted efforts. Successful corporate recruiters were identified to pilot new strategies to build a diverse talent pipeline while increasing the number of minority applications.

As part of both of these efforts, we increased outreach to HBCUs, Hispanic-serving institutions, Asian-serving institutions, and other schools with high numbers of minority graduates in our key majors. We also expanded regional intern hiring that focuses on potential applicants who are already located in areas where we have difficulties hiring and retaining employees, and we hired 16 students in 2019 through the Diversity Outreach Student Intern Program. Our efforts have helped to increase the pace of change.

During the Chairman's tenure, minorities have been hired at a rate several points above the civilian labor force for the examiner occupational series. Approximately 33 percent of examiners hired during this period are minorities, reversing a decades-long trend. In addition to focused recruitment of minorities at majority institutions, the FDIC continues to recruit at HBCUs and Hispanic-serving institutions. In 2018 and 2019, 24 percent (20 out of 82) of minorities hired as entry-level examiners were from an HBCU or Hispanic-serving institution.

Chairman McWilliams also required a thorough study of examiner training. As a result, the projected time to commission an examiner was reduced by six to twelve months. Commissioned examiners have greater opportunities to express interest and develop in other areas. The amount of time it takes to earn a commission and the inability to train and develop in other areas have been points of frustration for new employees. We believe this effort will help to improve retention of all employees, including minorities and women.

As the FDIC has worked to increase representation in the workforce, we have also expanded workplace benefits and services to improve retention. The FDIC was one of the first agencies to announce six weeks of paid parental leave,[4] and FDIC employees have been eligible to take 12 weeks of paid parental leave since July 2020 (*i.e.*, prior to the effective date of the Federal Employee Paid Leave Act). In addition, we launched a Pilot Student Loan Repayment Program to provide meaningful financial assistance to commissioned examiner employees over a three-year period. Over the next three years, up to 100 employees each year will be eligible to have their student loans paid directly, up to $500 per month for a total of up to $18,000 per employee. We suspect that the pool of eligible applicants will include a number of individuals from low- and moderate-income communities who may have taken on more debt to finance their education. If successful, the FDIC will consider expansion of the program to other categories of positions with recruitment or retention challenges.

We also bolstered awareness of our Worklife Program. We are particularly mindful that minority communities have suffered disproportionately from the COVID-19 pandemic, from both a health and economic perspective. The Worklife Program provides resources and services to support our employees' unique work and personal needs: financial, legal, dependent care, health coaching, onsite clinical counselors, and other support services.

The FDIC has also identified changes to daily operations that may support retention. As a part of our supervision modernization efforts, we plan to implement technology solutions to reduce the amount of time examiners need to be onsite at financial institutions. We are also reviewing opportunities to expand long-term telework flexibilities. We hope these efforts will reduce examiner travel and improve retention.

These efforts to improve retention, particularly of minority employees, are incredibly important, as our research indicates retention rates are high among examiners who have been with the FDIC for at least eight years.

[4] *See* FDIC Announces New Paid Parental Leave Benefit for Employees (Oct. 9, 2019), available at https://www.fdic.gov/news/news/press/2019/pr19089.html.

As the FDIC has worked to improve retention, we have also placed increased emphasis on enriching career development in support of our goal to foster a diverse workforce at all levels of the organization. We have added a new performance standard for supervisors and managers that focuses on career development and cultivation of an inclusive, constructive, harassment free work environment built upon transparent communication, mutual trust, and respect. We also increased our focus on mentorship programs and expanded professional development through greater access to the graduate school of banking and development of a subject matter expert credentialing program.

More recently, Chairman McWilliams announced further efforts that will provide career advancement opportunities for employees, including new opportunities for leadership positions and training through a rotational Special Assistant Program, increased flexibility to pursue career-enhancing positions through detail opportunities, and the creation of a Leadership Development Program for high-performing employees.

As part of our career development program, the FDIC also increased diversity and inclusion training for all employees, including those engaged in the recruiting and hiring process; expanded voluntary educational opportunities; increased remote training and learning opportunities to expand access and minimize travel; and increased engagement by senior leadership with all nine of our Employee Resource Groups (ERGs).[5]

To enhance our diversity and inclusion efforts, the FDIC has also engaged an independent consultant to identify any remaining barriers that may exist for career advancement by women or minorities to the most senior levels of the agency and for persons with disabilities to effectively participate in the hiring and contract awards processes.

With the potential for increased retirements[6] and hiring activity over the next few years, the FDIC is well positioned to continue the diversity transformation of our workforce. Our recruiting and retention efforts have already produced results, and new initiatives in these areas will further strengthen diversity. As positions are vacated by retirements, our minority employees will be better prepared to assume leadership roles because of our new career development programs.

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[5] ERGs are networks of employees with similar interests, shared characteristics, or life experiences, whose goals and objectives facilitate the creation and maintenance of a work environment that recognizes, appreciates, and encourages the utilization of the talents, skills, and perspectives of all employees in the achievement of the FDIC's mission.

[6] As of June 1, 2020, 43 percent of the FDIC's permanent workforce is eligible to retire within five years. This challenge is not unique to the FDIC; in 2017, the Government Accountability Office (GAO) noted that nearly 32 percent of the permanent federal workforce would be eligible to retire within five years. *See NextGen Feds: Recruiting the Next Generation of Public Servants Before the Subcomm. on Gov't Operations of the H. Comm. on Oversight and Reform*, 116th Cong. 10 (2019) (statement of Robert Goldenkoff, Director, Strategic Issues, Government Accountability Office), available at https://www.govinfo.gov/content/pkg/CHRG-116hhrg37997/pdf/CHRG-116hhrg37997.pdf.

As a career FDIC employee who has witnessed many of these challenges firsthand, I am excited by the prospects these new initiatives hold for diversity and inclusion, and I am proud to lead OMWI at this critical time in our history.

B. Contracting

Just as the FDIC has committed to increase the diversity of our workforce, we have also continued our efforts to promote the participation of minority- and women-owned businesses (MWOBs) in contracting actions.[7] In 2019, the FDIC awarded 152 contracts, or 29 percent of all contracts, to MWOBs with a total value of approximately $174 million, or 31 percent of all new awards.

For any contract over $100,000, OMWI review is required to identify competitive MWOBs to include in contract solicitations. As part of this process, OMWI uses the FDIC's Contractor Resource List, which includes registered MWOBs. OMWI also identified qualified MWOBs through outreach, the System for Award Management, and the Minority Business Development Agency. This process helps ensure that a diverse pool of contractors is solicited and considered for each major contract.

The FDIC has taken a number of actions in 2020 to improve the ability of MWOBs to compete for contracts. First, OMWI continues to provide one-on-one technical assistance to MWOBs on doing business with the FDIC using virtual collaboration tools during the pandemic. Second, OMWI continues to sponsor technical assistance and other events to maintain a pipeline of vendors for future contracting opportunities. For instance, OMWI and the FDIC's Acquisition Services Branch will jointly sponsor a virtual Technical Assistance Event on December 10, the first in a three-part series designed to promote MWOB contracting. In addition, OMWI will host a pilot "Pitch Day" in late 2020 to provide prospective MWOBs an opportunity to present their capabilities and market their goods and services to FDIC personnel. Third, OMWI is developing a MWOB Relationship Management (MRM) Tool, which will enable OMWI to capture and manage MWOB contacts and information as a result of outreach and technical assistance events, market research, and vendor communications. The MRM Tool will support OMWI-targeted acquisition planning activities by identifying viable MWOBs for contracting opportunities and tracking their participation rate on solicitations and successful awards.

The Legal Division's contracting program endeavors to maximize the participation of both minority- and women-owned law firms (MWOLFs) and minority and women partners and associates employed at majority-owned firms (Diverse Attorneys) in legal contracting. In 2019, the FDIC paid nearly $11 million to MWOLFs and Diverse Attorneys combined, out of a total of approximately $32 million (34 percent) paid to outside counsel. The FDIC made 62 referrals to outside counsel in 2019, of which 20 (32 percent) were to MWOLFs.

[7] Section 342(c)(2) of the Dodd-Frank Act provides that "[t]he procedures established by each agency for review and evaluation of contract proposals and for hiring service providers shall include, to the extent consistent with applicable law, a component that gives consideration to the diversity of the applicant. Such procedure shall include a written statement, in a form and with such content as the Director shall prescribe, that a contractor shall ensure, to the maximum extent possible, the fair inclusion of women and minorities in the workforce of the contractor and, as applicable, subcontractors."

The cornerstone of the Legal Division's contractor diversity and inclusion efforts is the FDIC's partnerships with minority bar associations and specialized stakeholder organizations. In 2019, the Legal Division participated in seven minority bar association conferences and three stakeholder events in support of maximizing the participation of MWOLFs and Diverse Attorneys in FDIC legal contracting. In addition, the Legal Division evaluated and approved three new MWOLF applications in 2019. Firms from various geographic areas were added to the FDIC List of Counsel Available in order to be eligible to receive legal contracting work.

II. Diversity and Inclusion in the Financial Services Industry

Pursuant to Section 342 of the Dodd-Frank Act, the FDIC reports on the diversity data received from regulated institutions annually to Congress. The FDIC analyzes the self-assessment information and highlights exemplary diversity and inclusion practices for purposes of assisting financial institutions' benchmarking and strengthening diversity programs.

In March 2020, the FDIC deployed a new online application for financial institutions to input Diversity Self-Assessment data. Despite the severity of the current environment, the FDIC saw a steady response rate from regulated institutions. For the 2019 reporting year, the FDIC invited 787 of our regulated institutions with 100 or more employees to participate in conducting their annual diversity self-assessment, of which 134 (17 percent) responded with their voluntary submissions. While a consistent response rate is notable in these unprecedented times, the FDIC would like to see more institutions participate. To support examiners, who regularly interact with our financial institutions, OMWI prepared talking points concerning the Act and the self-assessment. The FDIC is exploring additional ways to increase outreach efforts to further encourage and guide regulated institutions to implement diversity policies and best practices, and to share their completed self-assessments to further raise awareness aimed at improving diversity and inclusion throughout the industry.

A. MDIs

One of Chairman McWilliams' priorities has been expanding our engagement and collaboration in support of MDIs. An MDI is often the financial lifeblood of the community it serves, enabling individuals and minority-owned small businesses to securely build savings and obtain credit. Although the number of MDIs is comparatively small relative to the total number of FDIC-insured institutions, these banks have a substantial impact on their communities, including through mortgage and small business lending.

The FDIC has embraced our statutory responsibility to promote and preserve the health of MDIs by seeking new and innovative ways to engage with these institutions and better understand their needs.[8] In addition to frequently engaging with MDIs throughout the nation

[8] Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) sets forth several statutory goals for the FDIC and other financial regulators, including the following: (1) preserve the number of MDIs; (2) preserve the minority character in cases involving merger or acquisition of an MDI; (3) provide

with technical assistance, banker roundtables, and networking events to connect MDIs and non-MDIs for potential business partnerships, we have taken the following steps:

- Tripled MDI representation on our Community Bank Advisory Committee (CBAC);[9]
- Established a new MDI subcommittee on the CBAC to highlight the work of MDIs in their communities and to provide a platform for MDIs to exchange best practices;[10]
- Enabled MDIs to review potential purchases of a failing MDI before non-MDI institutions are given this opportunity;
- Clarified that non-MDIs can receive Community Reinvestment Act credit for their collaboration with MDIs; and
- Facilitated commitments to support MDIs, including most notably a $100 million commitment by Microsoft.[11]

In addition, last month Chairman McWilliams announced that we are exploring a framework that would match MDIs and Community Development Financial Institutions (CDFIs) with investors interested in the particular challenges and opportunities facing those institutions and their communities.[12] Although we are still developing the details, the idea would include a vehicle through which investors' funds would be channeled to make investments in or with MDIs and CDFIs, including direct equity, structured transactions, funding commitments to loan participations, or potential loss-share arrangements. The initiative seeks to accomplish several objectives, including maximizing the benefits to MDIs and the communities they serve by providing capital preservation and growth, as well as providing a minimal return to investors. We expect to release more information in the near future, and we will continue to work with stakeholders on how best to proceed.

B. Financial Inclusion and Financial Innovation

As we work to create a more inclusive banking and financial system, the FDIC recognizes the potential benefits that financial innovation can deliver to consumers. New technologies have the potential to bring more people into the banking system, provide access to new products and services, and lower the cost of credit.

The FDIC seeks to foster the development of new technologies that improve the way banks operate. For many community banks, including MDIs, the cost to innovate is often prohibitively high. To help these institutions overcome these challenges, we established an

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technical assistance to prevent insolvency of institutions not now insolvent; (4) promote and encourage creation of new MDIs; and (5) provide for training, technical assistance, and educational programs.

[9] *See* FDIC Advisory Committee on Community Banking, available at https://www/fdic.gov/communitybanking.

[10] *See* MDI Subcommittee to FDIC's Advisory Committee on Community Banking, available at https://www.fdic.gov/regulations/resources/minority/subcommittee/indix.html.

[11] *See* Microsoft, "Addressing racial injustice" (June 23, 2020), available at https://blogs.microsoft.com/blog/2020/06/23/addressing-racial-injustice/.

[12] *See* FDIC Chairman Jelena McWilliams, "Creating a Financial System of Inclusion and Belonging," speech before The University of Chicago Law School and American Financial Exchange Webinar on "The Role of Minority Depository Institutions and Innovation in the Age of COVID-19" (Aug. 26, 2020), available at https://www.fdic.gov/news/speeches/spaug2620.html.

office of innovation—FDiTech—in 2019, and we began working on several initiatives to promote innovation and support financial inclusion.[13]

III. Conclusion

The FDIC has made progress fostering diversity and inclusion, but we know our efforts are far from complete. We remain committed to establishing a diverse workforce and inclusive work environment, both at the agency and across the financial services industry. We will continue our efforts to recruit, retain, and develop the most talented and diverse workforce to sustain our statutory mission and serve the public at the highest level.

Thank you again for the opportunity to testify today, and I look forward to answering your questions.

[13] *See* FDiTech, available at https://www.fdic.gov/fditech/.