# PRESERVING AND EXPANDING MINORITY BANKS

## HEARING

BEFORE THE

SUBCOMMITTEE ON
OVERSIGHT AND INVESTIGATIONS

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

FIRST SESSION

OCTOBER 30, 2007

Printed for the use of the Committee on Financial Services

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U.S. GOVERNMENT PRINTING OFFICE

39–916 PDF WASHINGTON : 2008

For sale by the Superintendent of Documents, U.S. Government Printing Office
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# PRESERVING AND EXPANDING MINORITY BANKS

**Tuesday, October 30, 2007**

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON OVERSIGHT
AND INVESTIGATIONS,
COMMITTEE ON FINANCIAL SERVICES,
*Washington, D.C.*

The subcommittee met, pursuant to notice, at 10 a.m., in room 2128, Rayburn House Office Building, Hon. Melvin L. Watt [chairman of the subcommittee] presiding.

Members present: Representatives Watt, Waters, Lynch, McCarthy, Klein; and Miller.

Also present: Representative Meeks.

Chairman WATT. The Subcommittee on Oversight and Investigations will come to order.

Without objection, all members' opening statements will be made a part of the record. I will now recognize myself for an opening statement.

Minority and women-owned banks serve an important but often overlooked role in the U.S. economy. For too long in the Nation's history, women and racial and ethnic minorities were shut out of this Nation's banking systems. Minority and women-owned banks stepped into the breach and today provide critical banking services and financial products to distressed or traditionally underserved communities throughout the United States.

Today's hearing is designed to highlight the role of minority- and women-owned banks in the economy and to examine how Federal regulators and Congress can work together to support these important financial institutions.

The Federal Deposit Insurance Corporation (FDIC) and the Office of Thrift Supervision (OTS) are charged under Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 to "preserve and promote" minority banks. This includes preserving the number of minority banks, preserving these institutions' minority character in mergers and acquisitions, and providing technical assistance to the institutions.

In 1993, the GAO issued a report entitled, "Minority-Owned Financial Instructions: Status of Federal Efforts to Preserve Minority Ownership." The report found that while the Federal banking regulators had taken some steps to preserve minority ownership, they had not assessed whether these steps were effective. The GAO therefore recommended that the Secretary of the Treasury consult with the FDIC and the OTS to systematically assess the effectiveness of their minority bank support efforts, including surveying minority institutions to gain their insight.

Thirteen years later, unfortunately, the regulators still have not implemented the major recommendations from the 1993 GAO report. The October 2006 GAO report entitled, "Minority Banks: Regulators Need to Better Assess Effectiveness of Support Efforts," might just as well have been a reprint of the 1993 report. The report again examined Federal regulators' efforts to comply with Section 308 of FIRREA to preserve and promote minority banks, and raised many of the same issues raised in 1993.

This hearing will expose and shed light on the key findings, ask why regulators still have not implemented the 1993 GAO recommendations, and focus attention on what more can and must be done to preserve, support, and expand these banks.

I ask unanimous consent to insert into the record both the 1993 and the 2006 GAO reports. Without objection, it is so ordered.

The 2006 GAO report suggests mixed results by the Federal Government in supporting minority banks. On one hand, some Federal banking regulators have developed initiatives training and outreach events for minority banks. For example, the FDIC and the OTS apparently have national and regional coordinators to interface with minority banks and to provide technical assistance.

On the other hand, the GAO report indicated that neither the OCC nor the Federal Reserve have developed specific minority banking initiatives. While neither of these regulators is covered under Section 308 of FIRREA, both the OCC and the Federal Reserve have issued policy statements in the last several years expressing support for minority banks, and both have indicated that they plan to develop programs and initiatives to support and advance these policy statements.

We would like to hear about the OCC and the Federal Reserve's progress in fulfilling the rhetorical objectives set out in their policy statements. Apparently the Federal Reserve has stated that they will merely consider implementing the GAO's recommendation. We would like to find out whether the Federal Reserve will indeed implement the GAO regulations or, alternatively, whether the Fed might prefer to be directed to do so by being included under Section 308 of FIRREA.

The GAO report suggests that many minority banks operate in unique environments, often serving distressed and underserved areas, and consequently must retain higher reserves for loan losses and have higher overhead costs because they spend more time training their staff and provide extensive customer service. Yet the GAO report also reveals that less than 30 percent of minority banks actually utilize the technical assistance offered by the Federal regulators.

We want to explore why that is so. The GAO reported that several minority bank officials suggested that Federal regulators should consider undergoing additional training to gain sensitivity to the unique challenged faced by minority banks. I would like to hear more about those challenges and what would be appropriate to respond to them.

We must remain vigilant in fulfilling Section 308's mandate to preserve and promote minority banks. I look forward to hearing from these regulators and minority-owned banks about best practices for preserving and expanding this important segment of the financial services industry.

I will now recognize Ranking Member Gary Miller, from California.

Mr. MILLER. Thank you, Mr. Chairman. Well, I want to welcome our distinguished panel. It is good to have you here this early morning. And I thank Chairman Watt for holding this hearing. It is rather informative when we discuss issues like this.

It is important to examine the important role banks have in serving the financial needs of underserved communities and minorities. Like most community banks, minority banks may also confront challenges because of their smaller size. Recognizing the important role of minority banks, in 1989 Congress called on the banking regulators to establish goals to help promote and preserve minority banks. In response to these objectives, the OTS and the FDIC created staffing structures, resources, events, technical assistance, and outreach programs to assist minority banks.

While ensuring the safety and soundness of financial institutions is their first responsibility, the regulators have also hosted and continue to host a variety of educational events such as conferences, roundtables, and workshops which bring minority banks and their regulators together to give the banks a chance to share their concerns regarding compliance examinations, community development, deposit insurance, and other issues facing the banks.

Last year the Government Accountability Office, GAO, found that the profitability of most large minority banks—that is, with assets greater then $100 million—was nearly equal to that of similar size banks. However, small minority banks and African American banks of all sizes tend to be less profitable than they appear despite the efforts of the regulators.

The study shows that these differences were due to relatively higher loan loss reserves and operating expenses, and from competition from larger banks. The GAO also reported that while banking regulators have adopted many different approaches to support minority banks, they have not regularly assessed the effectiveness of these efforts.

While the banking regulators have been criticized for not assessing their efforts to promote minority banks, the GAO found that not even half of the minority banks attended the FDIC roundtables and conferences designed to assist them. The bank officials that did attend these events found the events extremely useful. Furthermore, only half of the banks actively participate in their regulators' training and educational activities. The GAO found that most banks that participated in these activities reported favorably on these events.

The FDIC and the OTS emphasize technical assistance services as key components of their efforts to assist minority banks, but less than 30 percent of the minority banks utilized such assistance. The GAO found that the banks that do use technical assistance offered by the regulators rated the assistance as extremely or very useful.

In 2004, in response to the FDIC corporate performance objectives, the FDIC completed review of its minority bank outreach efforts; only 7 of the 20 banks that were surveyed responded. Additionally, in 2005 the FDIC requested feedback on several proposals to better serve their institutions, and 25 minority banks responded.

The GAO reported that only about one-third of the survey respondents rated regulators' efforts as very good or good. Since so few minority banks are participating in the regulators' efforts, perhaps the one-third figure represents the banks that are participating in the events, while the banks that rated their agencies' efforts as poor have not participated in programs at all.

The GAO reports that the banks not participating in such efforts may be missing opportunities to address the problems that limited their opportunities or financial performances, assistance and availability. But it is the bank officials' responsibility to take advantage of these programs to ensure that their banks succeeded. The regulators cannot force banks to participate in these programs.

Regardless of these findings, positive news regarding the minority banks has been more recently documented. Last month, Creative Investment Research, Inc., a Washington consulting firm that focuses on minority banks, reported that assets of minority-owned banks are on the pace to increase by an average of about 18 percent this year, compared to the overall industry average of only 6 percent.

The report stated that a dozen banks have opened since the end of 2005 targeting Hispanics. The report also showed that while the return on assets of these banks has dropped off dramatically in the last 18 months, this was attributed to an increase in the startup targeting minorities. Mr. Cunningham, president of Creative Investment Research, Inc., said that he expects when minority startups mature, the returns will move closer to the industry rate.

Additionally, Evelyn Smalls, president and CEO of the $72.3 million asset United Bank of Philadelphia, an African-American-owned bank, has stated that interest in economic development has increased. Evelyn stated that the bank has been contacted by numerous people expressing interest in working with the bank and bringing business to the bank. She expects her bank will increase in assets to about $100 million over the next few years.

While I believe that the success of these banks is obviously important, as it is in the success of any bank, it seems to me that the most important part of the discussion is missing here, to consumers, that we need to focus on them. If the intent of Section 308 of FIRREA was to promote the economic viability of minorities in underserved communities, instead of focusing on who owns a bank, we should be discussing whether banks are successfully serving minorities in underserved communities. That is the overarching goal of the law.

Additionally, we must consider the value of the opportunity that the thousands of banks, big and small, in this country have offered traditionally underserved communities, which has ultimately increased competition and consumers' choice.

I look forward to hearing from our panel today. Thank you.

Chairman WATT. I thank the gentleman for his opening statement, and we certainly want to focus on the part of his statement regarding service to the community and customers in underserved areas. That is an important focus. And we are likely to be having some hearings on that aspect of this issue, too.

Mr. Lynch, would you care to be recognized for an opening statement?

Mr. LYNCH. Thank you.

Chairman WATT. The gentleman from Massachusetts is recognized.

Mr. LYNCH. Thank you, Mr. Chairman. As is the custom here in Washington, I am required this morning to be in three separate hearings all occurring at the same time, so I must beg the Chair's indulgence. I am going to have to jump over to those other two committees during the course of the morning.

But I would like to thank you and Ranking Member Miller for convening this hearing on the importance in the future of minority banks. We have a copy of the GAO report this morning on the effort to promote and preserve minority-owned community financial institutions, which report confirms the critical nature of minority banks in historically underserved areas.

But it also points out that it was difficult for regulators to best assess the effectiveness of support efforts to these institutions, in the report which is entitled, "Minority Banks: Regulators Need to Better Assess Effectiveness of Support Efforts." As a result of this 72-page report, I believe it is vital that we are here today to use our oversight capacity on this committee to ensure that these critical minority institutions' needs are best met.

On a Federal policy level, especially in regards to Federal bank examination, competitive advantages or disadvantages that might exist in particular areas, I am particularly pleased to see that a friend and constituent of mine, Bob Cooper, is here this morning. He is the chief legal strategist and architect for OneUnited, which just happens to be the largest African-American-owned bank in the country.

And I know that since he joined OneUnited's management team, it has acquired and turned around at least three troubled banks that I know of, and it has grown from $56 million to about $650 million in assets, making it the fastest-growing African-American-owned bank in the Nation. Mr. Cooper has also been instrumental in the bank received CDFI bank expertise awards over the past 4 years for its lending in distressed communities, particularly in my district.

Mr. Cooper is testifying today in his capacity as the chairman of the National Bankers Association, and his expertise is particularly valuable, I believe today, as we address the issues faced by minority depository institutions around the country. I am particularly interested in his testimony regarding CRA. As we all know, over the years, the responsibility of the volume of mortgages underwritten by the banks has reduced, banks covered by CRA has been reduced, and yet mortgage companies and mortgage brokers not covered by the CRA have seen a dramatic increase.

And so I am eager to receive Mr. Cooper's testimony, just as I am all the panelists who have been willing to come forward this morning to help this committee with its work.

With that, Mr. Chairman, I yield back.

Chairman WATT. I thank the gentleman for his opening statement. And I would just say to Mr. Cooper that Representative Waters and Representative Lynch were lobbying to introduce you. So—

Mr. LYNCH. And Mr. Capuano, I might add.

Chairman WATT. That must mean you are doing something right. I will make my own personal statement about my banker a little bit later.

Other members obviously will be in and out. There are a lot of hearings going on this morning. In fact, I am supposed to be in three right now in various committees, so you can anticipate that members will be in and out.

I just spoke of Ms. Waters. I am getting ready to introduce the witnesses, but if you would care to make an opening statement, I would be delighted to recognize you before I do that.

Ms. WATERS. Thank you very much, Mr. Chairman. It is very kind of you. And I do appreciate this hearing that you are holding today. This is a very, very important subject, and one of those areas that has not gotten much attention in the Congress in the years that I have been here.

But as we know, there has always been an effort to truly be a part of the American business and economic community in this country. It has been very difficult, and we have talked a lot about access to capital. We have talked a lot about entrepreneurship, a lot about involvement of minority communities in financial institutions, and the desire for ownership by minorities. We talk about it a lot, but there has not been a lot of support for minority institutions, many of whom have struggled in order to stay in business and provide services, services for the minority communities that oftentimes are not being provided by anybody else.

I am reminded of the disaster in the Gulf Coast with Hurricanes Katrina and Rita and the impact that they had on some of our minority banks. While I know there was some assistance, it was not enough. We do very little to preserve and/or expand minority banks. And even though I think we can find somewhere in our laws that it is intended that we should try and preserve and expand minority banks, when we have attempted to use that instruction and law, we have not been able to execute anything in a real way.

This hearing today will help us to understand better what is going on out there and how perhaps we can be of assistance and get this Congress on record for our desire to preserve and expand minority banks. So I thank you Mr. Chairman.

And while I am doing that, I would like to make a disclosure—because I think it is absolutely necessary—that my husband is a director of a minority bank. So I want that on the record, and I will submit my disclosure in writing.

Chairman WATT. All right. For a change, we have to make disclosures. So that is a good thing.

Without objection, other members' opening statements will be made a part of the record, and they will have some additional time to submit them for the record.

I am now going to introduce the panelists briefly. Without objection, each of your written statements in their entirety will be made a part of the record. And each witness will be recognized for 5 minutes, although—we try to stay close to that, but I am a little bit more lenient on that than most Chairs are.

We will start with Mr. George Scott, who is the Director of the Financial Markets and Community Investment team of the GAO, where he helps lead the GAO's work assessing the ability of the financial services industry and its regulators to help maintain a stable, well-functioning financial system. He is responsible for leading the GAO's work related to higher education issues, including Federal student loan and grant programs also.

Mr. Scott, you are recognized for 5 minutes.

**STATEMENT OF GEORGE A. SCOTT, DIRECTOR, FINANCIAL MARKETS AND COMMUNITY INVESTMENT, U.S. GOVERNMENT ACCOUNTABILITY OFFICE (GAO)**

Mr. SCOTT. Thank you, Chairman Watt, Ranking Member Miller, and members of the subcommittee. I am pleased to be here today to discuss the efforts of Federal bank regulators to support minority banks.

Minority banks are a small community within the banking industry, accounting for 2 percent of all financial institutions and total industry assets. Despite their small numbers, these banks can play an important role in serving the financial needs of historically underserved communities such as African Americans, and growing populations of minorities such as Hispanic and Asian Americans.

Federal regulators are to work to preserve and promote minority banks. For example, the Federal Deposit Insurance Corporation and the Office of Thrift Supervision are required to provide minority banks with technical assistance, training, and educational programs. They must also work to preserve the character of minority banks in cases involving mergers or acquisitions or these institutions.

My testimony today summarizes the key findings of our 2006 report, which discussed the profitability of minority banks, regulators' efforts to support such banks, and the view of minority banks on these efforts.

In summary, our analysis showed that the profitability of most minority banks with assets greater than $100 million nearly equaled that of their peers. However, the profitability of smaller minority banks and African American banks of all sizes did not meet their peers' size and profitability.

Many small minority banks had return on assets that were substantially lower than those peer groups. Moreover, African American banks of all sizes had return on assets that were significantly lower than those of their peers.

Our analysis identified some possible explanations for the low profitability of some minority banks, such as higher reserves for potential loan losses, higher administrative expenses, and competition from larger banks. Nevertheless, the majority of officials from minority banks were positive about their bank's rational outlook, and many saw their minority status as an advantage in serving their communities.

In terms of fellow efforts to support these banks, we found that bank regulators have adopted different approaches. The FDIC, which supervises more than half of all minority banks, had the most comprehensive program to support minority banks and led an inter-agency group that coordinates such efforts. Among other things, the FDIC designated officials to be responsible for minority bank efforts, held periodic conferences for banks, and established formal policies for annual outreach.

The OTS also designated staff to be responsible for the agency's efforts to support minority banks, developed outreach procedures, and focused on providing technical assistance.

The OCC and the Federal Reserve, while not required to do so, also undertook some efforts to support minority banks. Despite these initiatives, at the time of our review, no agency had regularly assessed the effectiveness of its efforts or established outcome-oriented performance measures for their programs. Consequently, regulators were not well-positioned to assess the results of their efforts or identify areas for improvement.

Some minority banks identify potential limitations in the regulators' support efforts. About one-third of survey respondents rated their regulators' efforts for minority banks as very good or good, while 26 percent rated the efforts as fair, and 13 percent as poor or very poor.

FDIC-regulated banks were more positive about their agency's efforts than banks regulated by other agencies. However, only about half of the FDIC-regulated banks and about quarter of the banks regulated by other agencies rated their agency's efforts as very good or good. Furthermore, although regulators emphasize providing technical assistance to minority banks, less than 30 percent of such institutions said they had used this assistance within the last 3 years.

Some minority bank officials also said that regulators did not always understand the challenges minority banks face in providing services in their communities. They suggested that examiners needed to undergo more training to improve their understanding of minority banks and the customers they serve.

In conclusion, regulators are now taking steps to better assess their support efforts. For example, all the regulators are in the process of consulting with minority banks to obtain feedback on their efforts. Some regulators also plan to provide additional training to their examiners on minority bank issuers.

While the regulators' recent efforts are encouraging, it is too soon to assess their effectiveness. As they undertake these initiatives, we encourage regulators to ensure that they collect and analyze relevant data and take steps to continue to enhance their minority bank support efforts.

Mr. Chairman, this concludes my prepared statement, and I would be happy to answer any questions you or other members of the subcommittee may have at this time. Thank you.

[The prepared statement of Mr. Scott can be found on page 85 of the appendix.]

Chairman WATT. I can certainly tell that this gentleman has testified here before. He hit 5 minutes on the head, and followed the purpose for our being here, which is to evaluate and talk about the GAO's report.

Our second witness is Ms. Sandra L. Thompson from the FDIC. She is the Director of FDIC's Division of Supervision and Consumer Protection, where she directs risk management and consumer protection examination activities relating to approximately

5,200 FDIC-supervised institutions. She previously served as the FDIC's Deputy to the Vice Chairman and led the FDIC's Bank Secrecy Act and anti-money laundering and financial crimes supervisory activities.

She holds a degree in finance from Howard University. And Ms. Thompson, we would love to hear from your for 5 minutes, approximately.

**STATEMENT OF SANDRA L. THOMPSON, DIRECTOR, DIVISION OF SUPERVISION AND CONSUMER PROTECTION, FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC)**

Ms. THOMPSON. Thank you. Chairman Watt, Ranking Member Miller, and members of the subcommittee, I appreciate the opportunity to testify on behalf of the FDIC regarding our role in preserving and expanding opportunities for minority institutions. Historically, these institutions play a vital role in their communities. They serve as a key source of credit and other banking services that are essential to economic growth and business development in areas that are often underserved by traditional institutions.

My written testimony details the FDIC's efforts to preserve and encourage minority ownership of depository institutions, as well as our actions to respond to the recommendations in the October 2006 GAO report.

As for the overall health of the 205 minority institutions in the banking system, while most are profitable, their financial performance as a group lags behind non-minority institutions. The capital levels of minority institutions are roughly comparable to that of the industry. However, the average return on assets for these institutions in the first half of this year was .69 percent compared to an industry average of about 1.21 percent.

The difference in profitability can result from many factors. Minority banks, like most community banks, often must compete with larger financial institutions for both business and staff. In addition, some minority institutions are challenged by operating in economically distressed areas. The disparities in profitability and other key measures between minority banks and other financial institutions demonstrate the continued importance of the FDIC's goals to encourage and preserve these institutions.

In order to achieve these goals, the FDIC operates under a policy statement that was adopted by our Board of Directors. This statement provides the framework for the training and technical assistance we offer to banks under our minority bank program. The FDIC has staff dedicated to the minority bank program nationwide.

At its core, the FDIC's minority bank program focuses on two key elements. First, our program is designed to provide technical assistance and training to minority banks. We use a number of methods. They range from assistance to individual banks to national and regional conferences and forums that focus specifically on minority bank issues.

The second element of our minority bank program is to train our examiners. The FDIC has specific programs in place to educate bank examiners and sensitize them to the unique issues often found in minority institutions. Traditional measures of success for the industry as a whole may not apply to minority institutions, so examiners have been advised not to place undue emphasis on peer analysis when evaluating minority institutions. We also invite minority bankers to speak at all major FDIC examiner training conferences to share their experiences and perspectives.

The FDIC's minority bank program receives attention at the highest level in the agency. The national minority bank coordinator submits a quarterly report of all minority bank activities to our Chairman, and we also highlight elements of the program in our annual report.

In response to the GAO's recommendations, the FDIC has developed an annual survey that will be sent to all minority banks at the end of this year. The banks will be able to rate the effectiveness of FDIC assistance programs. We also implemented the recommendation to develop and track specific outcome-oriented performance measures for our minority bank program.

In summary, minority institutions face many challenges. The FDIC recognizes the vital role that these institutions play in the economic development of communities throughout the United States, and we are dedicated to the goals of preserving, promoting, and encouraging the creation of minority depository institutions.

This concludes my statement, and I will be happy to answer questions.

[The prepared statement of Ms. Thompson can be found on page 113 of the appendix.]

Chairman WATT. Thank you so much, Ms. Thompson.

Our third witness is Ms. Montrice Yakimov of the Office of Thrift Supervision. Ms. Yakimov joined the Office of Thrift Supervision in June of 2006, and is responsible for the development, implementation, and evaluation of examination programs for compliance with Federal consumer protection laws, including fair lending, the Community Reinvestment Act, and the BSA anti-money laundering requirements. She also heads up compliance policy, and is responsible for the consumer complaint function and the agency's community affairs program.

Ms. Yakimov received her undergraduate degree in broadcast management from Howard University, and received her MBA from George Washington University. Welcome, Ms. Yakimov, and you are now recognized.

**STATEMENT OF MONTRICE GODARD YAKIMOV, MANAGING DIRECTOR, COMPLIANCE AND CONSUMER PROTECTION, OFFICE OF THRIFT SUPERVISION (OTS)**

Ms. YAKIMOV. Thank you. Good morning, Chairman Watt, Ranking Member Miller, and members of the subcommittee. Thank you for the opportunity to discuss the Office of Thrift Supervision's program on preserving and expanding minority ownership of savings associations, Federal savings associations.

The OTS recognizes and supports the critical mission, the legacy, and the role that minority institutions have played in the United States. Since the 1970's, before there was a legislative requirement to do so, the OTS, through its predecessor, has provided technical assistance and other forms of support to the minority institutions we supervise.

You have asked about our efforts to address GAO recommendations to improve our minority institutions program. These actions are detailed in my written statement, but I will highlight today some of the initiatives that the OTS has recently undertaken under the leadership of our Director, John Reich.

The OTS minority institution program provides technical assistance and various forms of support to 22 minority thrifts, many of which primarily serve minority and lower income communities. We have more than 30 staff members, including senior management and directors, who directly provide various forms of assistance such as providing regular input and guidance on strengthening various compliance risk management systems; conducting training for boards of directors on various issues such as corporate governance, capital credit, and accounting policy; and occasionally assisting institutions in identifing and hiring new senior management and directors.

Although the coverage ratio of OTS staff to minority institutions enables frequent contact with the management and leadership of those institutions, the GAO report recommended that the banking agencies institute a survey to see how we could do more to ensure that our minority institution program is delivering the forms of assistance most valued and desired by the institutions we supervise. OTS agreed, and has implemented this recommendation. We will use the results of this survey to continue to enhance our program.

Our survey supplements an annual questionnaire entitled, "The Thrift Satisfaction Survey," which we are also tailoring in order to solicit ongoing information from the minority institutions we regulate.

In order to proactively seek input on our program, we have also increased our contact with executives from minority institutions. For example, OTS Director Reich recently hosted a meeting of thrift institution executives at the 2007 Inter-Agency Minority Institution Conference in Miami. The Director also spoke at the National Bankers Association conference this fall, as he did last year, seeking advice and input on what the OTS could do to improve our minority institution program.

We have received excellent suggestions at these meetings, and will be incorporating them into the 2008 strategic plan for our minority institutions program. Our strategic plan will be finalized by year end, and it is consistent with the GAO recommendation to develop outcome-oriented performance measures to assess the progress of our efforts in relationship to the minority institution program goals.

Additionally, consistent with one of the principles contained in FIRREA regarding minority institution support programs, next month the OTS will pilot more training for our examiners on our minority institution program during an advanced examiner school here in Washington. Also with the objective to support the creation of new minority institutions, the OTS has proactively participated in conferences widely attended by minority bankers, entrepreneurs, and other interested parties across the country. Through our booth, we have participated in events such as the Congressional Black Caucus conference, the National Council of La Raza's annual conference, and the Multicultural Business Symposium sponsored by the Black Business Professionals and Entrepreneurs.

The OTS, along with the other agencies, is considering how supervisory guidance can support minority institutions. For example, last year the OTS realigned our CRA regulations with that of the other agencies and joined the agencies in proposing guidance to permit non-minority-owned institutions to receive favorable CRA consideration for investing in minority-owned institutions.

Notwithstanding all these efforts, we believe we can do more. Development of a minority institution strategic plan is underway as we look to the future and additional steps we can take to further strengthen our program.

Thank you, Mr. Chairman, for highlighting this important issue. We look forward to working with you, Ranking Member Miller, the members of the subcommittee, and our fellow banking regulators to help support a bright future for minority-owned financial institutions. Thank you.

[The prepared statement of Ms. Yakimov can be found on page 153 of the appendix.]

Chairman WATT. Thank you, Ms. Yakimov. Our witnesses are doing great staying in the time limit, but that is not to put pressure on the last two witnesses. They don't have the experience at doing this that the regulators do, so don't feel intimidated by that.

Our next witness is Ms. Sandra Braunstein. Ms. Braunstein is the Director of the Federal Reserve Board's Division of Consumer and Community Affairs. As Director, she is principally responsible for the development and administration of Federal Reserve policies related to consumer financial services and consumer protection. Ms. Braunstein also administers outreach efforts to the financial services industry, State, local, and Federal Government officials, and consumer and community organizations.

Ms. Braunstein, you are recognized for your statement.

**STATEMENT OF SANDRA F. BRAUNSTEIN, DIRECTOR, DIVISION OF CONSUMER AND COMMUNITY AFFAIRS, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**

Ms. BRAUNSTEIN. Thank you, Mr. Chairman. Chairman Watt, Ranking Member Miller, and members of the subcommittee, I appreciate this opportunity to discuss the Federal Reserve's longstanding commitment to, and work in support of, minority-owned depository institutions.

Nationally, there are about 200 minority-owned depository institutions serving a broad range of communities and populations. The Federal Reserve System supervises 19 minority-owned State member banks that are geographically dispersed across 8 of the system's 12 districts. They are diverse in terms of their minority ownership, including African American, Native American, Asian, and Hispanic-owned institutions.

Some of these banks are quite profitable and operate in higher income markets, while others serve lower income communities and in some cases are challenged to achieve earnings commensurate with their peers. Their issues are similar to those faced by many other banks—controlling overhead expenses, difficulty in retaining qualified management, and meeting competition from larger institutions in their markets.

Through our regulatory, supervisory, and community development functions, we consistently provide assistance that addresses the unique challenges and needs of minority-owned banks while at the same time holding these institutions to the same supervisory standards that we apply to all insured banks.

To enhance our support for minority-owned institutions, the Federal Reserve has developed an innovative and comprehensive training and technical assistance program. This program will be fully operational in 2008.

In developing the program, Federal Reserve staff met with a number of minority-owned and new banking organizations across the country, as well as trade groups, bank consultants, the Conference of State Bank Supervisors, and other State and Federal banking agencies to learn about the challenges that institutions confront in raising capital, and in growing and attracting talent. These meetings provided valuable information about the special needs of minority-owned banks, and also enhanced our understanding of the various issues that new and smaller institutions face.

The resulting training program consists of three modules that focus on issues that are most relevant at a particular point in a bank's life cycle. The modules have value for potential entrance to the industry as well as those that have been in the market for many years. They draw on data and experience from experts in the fields of economics, accounting, finance, compliance, and may focus on the particular challenges of establishing and sustaining robust and vibrant minority-owned depository institutions.

Given that our minority-owned institutions are geographically dispersed and serve different types of communities, a great deal of flexibility is being built into the curriculum so that modules can be tailored to address institution-specific concerns or issues. The program also includes a way to obtain continuous feedback on the usefulness of the course materials. The Federal Reserve is committed to respond to changes in the training needs of minority institutions by reviewing and adapting the curriculum as needed.

Concurrently, efforts are underway to incorporate material from the new training modules into the Federal Reserve examiner training programs. Relevant training will be provided for both safety and soundness and consumer compliance examiners.

In addition to this new program, the Federal Reserve has had other ongoing efforts that specifically provide support to minority-owned institutions. We joined the other banking agencies in 2006 and 2007 in hosting national conferences for federally insured minority-owned institutions.

System staff have also participated in regional events. Our ongoing commitment is further demonstrated through coaching and mentoring minority-owned banks that have struggled to manage growth while remaining profitable. We have also assisted institutions through the acquisitions process, including branch acquisitions.

On the regulatory front, the banking agencies recently issued for comment some clarifications regarding the Community Reinvestment Act. One of the proposed questions and answers indicates that non-minority banks' investments in minority-owned banks receive favorable consideration under the investment test even if the minority-owned institution is not located in and the activities do not benefit the assessment areas of the investing institution.

I would like to reiterate the Federal Reserve's commitment to promoting vibrant, competitive, and diverse banking markets. We are dedicated to using our roles as supervisors, regulators, community development facilitators, and consumer educators to support minority-owned institutions and the consumers who contribute to our robust financial services system.

Thank you.

[The prepared statement of Ms. Braunstein can be found on page 53 of the appendix.]

Chairman WATT. I thank you for your statement. Our next witness is Mr. John Walsh of the OCC. Mr. Walsh is the Chief of Staff and Public Affairs for the OCC, serving as the Comptroller's senior advisor on all matters. He represents the Comptroller in internal and external meetings and events, and provides expert policy advice. He also oversees the Agency's public affairs, congressional liaison, banking relations, program analysis and leadership learning, and workplace fairness functions.

Mr. Walsh holds a masters in public policy from the Harvard Kennedy School of Government. Mr. Walsh, you are recognized for your statement.

**STATEMENT OF JOHN G. WALSH, CHIEF OF STAFF AND PUBLIC AFFAIRS, OFFICE OF THE COMPTROLLER OF THE CURRENCY (OCC)**

Mr. WALSH. Thank you, Chairman Watt, Ranking Member Miller, and members of the subcommittee. I am John Walsh, Chief of Staff and Public Affairs at the Office of the Comptroller of the Currency.

I am pleased to appear before you today to discuss the GAO's October 2006 report, "Minority Banks: Regulators Need to Better Assess Effectiveness of Support Efforts," and the actions that the OCC has taken to address the recommendations of that report.

The OCC recognizes that minority-owned banks are important community and national assets. Minority banks have long performed a vital role in the American financial system by serving the market needs of their local communities, and the OCC is committed to encouraging their continued success. While the OCC is not subject to Section 308 of FIRREA, it has voluntarily taken the initiative to support minority banks in keeping with that legislation.

The OCC issued a policy statement on minority-owned national banks in 2001 to further the ability of minority banks to prosper and meet the needs of their communities. Let me review a few of the actions we have taken to implement this policy.

First, the OCC created a senior advisor position in 2004 to serve as the agency's focal point for minority banking issues. Second, the OCC formalized its longstanding practice of making experts available in each of the OCC's districts to provide guidance on a range of supervisory issues of importance to minority-owned institutions.

Third, we have issued guidance, distributed publications, and conducted information sessions regarding the provision of capital and other resources to minority-owned banks, including majority bank investments in many institutions.

As you know, the 2006 GAO report recommended that we consider serving minority institutions or undertaking other measures to determine how minority banks view our support efforts and related activities, and to assess the progress in meeting our goals. Building on our minority bank policy statement, we have undertaken additional efforts to increase the effectiveness of our supervisory services and outreach to our minority banks, as recommended in the GAO report.

Our initial step, now completed, was to conduct an internal survey of the assistant deputy comptrollers and portfolio managers who directly supervise minority national banks.

The second phase of our review began in August 2007, when we distributed a survey directly to our minority-owned national banks. The minority national banks survey is very focused on how we can make our education, outreach, and technical assistance efforts more useful and effective to these banks.

The survey also provides minority bankers the opportunity to comment on the OCC's supervisory policies and guidance and to state whether they believe our examiners have the training and guidance necessary to effectively supervise their banks.

I can report that the early returns from these surveys underscore the importance of specialized supervision for minority-owned banks. These results encourage us to place even greater emphasis on how to improve the effectiveness of our supervisory policies and guidance, and the ongoing training needs of both our examiners and our minority institutions.

As I describe further in my written testimony, the OCC is also implementing several additional initiatives to further the ability of minority banks to prosper and meet the needs of their communities. These include improving communications with organizing groups interested in entering the national banking system, expanded participation in outreach meetings and conferences throughout the country to discuss supervisory and industry issues, and the expanded use of the internet to support minority institutions.

The OCC created an external outreach and minority affairs page on the OCC's public Web site, and a special informational page for bankers on OCC's National BankNet site is under development. New BankNet features will include comparative bank performance metrics, discussion of legislative and regulatory issues, upcoming training opportunities, and other information of interest to minority bankers.

In conclusion, let me restate the OCC's commitment to work with minority-owned national banks and to provide effective technical assistance and supervisory services. As I mentioned, the OCC has voluntarily taken the initiative to support and reach out to minority banks under FIRREA's Section 308 provisions, and we would have no objection to that being made explicit by the Congress.

Thank you, Mr. Chairman. I would be pleased to answer your questions.

[The prepared statement of Mr. Walsh can be found on page 136 of the appendix.]

Chairman WATT. Thank you, Mr. Walsh.

Sometimes when you are in the middle of these hearings, you have a flashback to an earlier time in your life. And I just had one because—and Ms. Waters is going to get me out of the problem. I had two guys in my high school class. One of them was named "Cooper" and one of them was named "Cooper"—spelled exactly the same way. So I have had this dilemma in my whole life, and I don't have to answer that today because I am going to recognize Ms. Waters to make the introduction of our next witness, whatever his name is.

Ms. WATERS. Thank you very much for putting me on the spot, Mr. Chairman.

There may be two ways to pronounce this gentleman's name, but I have always referred to him as Mr. "Cooper." Mr. Bob Cooper, the chief legal strategist for OneUnited, the largest African American-owned bank in the country. Mr. Cooper is typical of the young, brilliant minds that have been amassed at OneUnited Bank by Mr. Kevin Cohee.

Since Mr. Cooper joined OneUnited, it has acquired and turned around three troubled banks, and grown from $56 million to $650 million in assets, making it the fastest-growing African American-owned bank in the Nation. Mr. Cooper is here today as the current chairman-elect of the National Bankers Association, the nation's oldest and largest trade association representing minority- and women-owned banks and thrifts.

Thank you, Mr. Chairman.

Chairman WATT. And I will recognize Mr. "Cooper," or Mr. "Cooper," for his remarks.

**STATEMENT OF ROBERT P. COOPER, SENIOR COUNSEL, ONEUNITED BANK, ON BEHALF OF THE NATIONAL BANKERS ASSOCIATION**

Mr. COOPER. Good morning, Chairman Watt, Ranking Member Miller, and members of the subcommittee. My name is Robert Patrick Cooper, and I am providing this testimony on behalf of the National Bankers Association, the NBA, and its national constituency of minority- and women-owned banking institutions.

First of all, we would like to thank you for taking the time to hold this hearing regarding the concerns of minority banks. We are confident you recognize the importance of minority banks in this country, particularly to our inner cities, where they not only provide critical financial services but also, as importantly, serve as a beacon of hope to underserved minority residents. These remarks seek to initiate a dialogue with you and your congressional colleagues to rectify certain problems minority banks face, and thereby avoid further crises for these institutions.

Regulators thus far have steadfastly refused to focus on the benefits and changes they are uniquely empowered to provide, instead emphasizing the straightforward FIRREA mandate regarding technical assistance. FIRREA was about more than technical assistance. It was a recognition of the unique challenges of minority banks and a promise to rectify them, a promise that thus far has been unfulfilled.

Let me briefly provide some context. The assessment of the GAO report accurately can be described as no less than alarming. For example, African-American banks, which are at the very heart of many large U.S. cities, have ROAs that significantly lag that of their peers, in some cases by as much as 75 percent. Unfortunately, the regulatory response to this crisis has fallen far short of congressional mandates as outlined in FIRREA.

As a result, we are well beyond the point where nebulous promises of future assistance are sufficient. Having failed to see expected benefits in the 18 years since FIRREA's passage, the NBA strongly believes that more forceful congressional action and oversight is now required.

Accordingly, the NBA is requesting specific, prompt, forceful action at the legislative, regulatory, policy, and procedural level to change the environment in which minority banks operate. We would very much appreciate the committee leading this effort and forcing the banking agencies to appear before you in formal hearings in which we can also participate on no less than an annual basis to explain their performance on a "outcome-oriented" basis recommended by the GAO.

Now, as a road map of certain objectives, we suggest the following. On the legislative front, we would ask respectfully that Congress amend FIRREA to expressly make it apply to all four Federal banking agencies, and to make it a mechanism of change. In my written remarks, I have prepared specific language for the committee's consideration.

To emphasize, however, while we believe amending FIRREA is important unto itself, it is far from sufficient. Our fundamental dissatisfaction is not with Congress. As a result, we wanted to provide a non-exhaustive list that the banking agencies can target to begin to improve the standing of minority banks.

First, the current capital rules are not designed to address the particular experience of minority banking institutions, and thereby to enable them to become prominent by asset size as well as role, and members of the financial services marketplace.

The avenue of raising capital commonly used by majority banks, broad public offerings of common stock, is not practically available to minority banks. The general concern is that by raising such funds, the shareholder base of the bank will change in a way that is adverse to its status and role as a minority bank.

We thus submit, and wish the banking agencies to recognize, that: one, nonvoting preferred stock held by institutional investors is a stable, safe, and sound form of capital; and two, it would not be an unsafe or unsound banking practice to amend the capital rules to permit minority banks to have a high percentage of capital consisting of such nonvoting preferred stock.

As a second specific area for change, despite certain recent and appreciated regulatory initiatives, the current CRA rules still do not address the particular environment in which minority banks operate, for example, with respect to encouraging majority banks to support them through investments, loans, or deposits.

Majority banks should receive CRA credit for funding minority- and women-owned banks, which are often community development financial institutions, or CDFIs. By modifying the CRA framework to make it expressly clear that such funding is wholly consistent with the purposes of CRA, minority banks can materially increase the funding they receive from bank institutional investors.

We are aware of Q&As designed to address this issue. Nevertheless, we strongly believe that the banking agencies should amend the CRA regulations to more expressly grant CRA credit to majority banks for providing funding to minority- and women-owned banks in CDFIs.

As a third specific area for change, banking agencies should consider the particular challenges faced by minority institutions when making broad policy statements. Such statements tend to address sweeping topics of current relevance to financial services, often in untailored terms. Consequently, minority banks face the prospect of examinations and criticisms not appropriate given their role in the industry.

We would suggest each banking agency either create a blanket policy addressing minority banks or amend their existing policies to expressly provide that regulators and examiners thoughtfully consider the unique circumstances of minority institutions in applying such policies.

Going forward, we would further suggest that each time regulators propose a policy statement, they strongly consider whether minority banks should be separately addressed in the statement, and specifically discuss their reasoning and conclusion in this regard in the preamble to the proposed policy.

In conclusion, we look forward to working with you and the regulators to address the foregoing challenges facing our institutions. We appreciate your attention to this important matter, and I would be pleased to answer any questions you may have. Thank you.

[The prepared statement of Mr. Cooper can be found on page 62 of the appendix.]

Chairman WATT. Thank you, Mr. Cooper, for your testimony.

And I will now make my disclaimers so that I get them on the record. Most people recognize my congressional district as being the second largest financial center in the country in Charlotte, North Carolina. And they recognize Bank of America and Wachovia.

But it should be clear that my bank account has always been, throughout my entire banking history, at Mechanics & Farmers Bank, a minority institution in our great State. And I should also disclose, although it is a matter of public record, that I am a shareholder in Mechanics & Farmers Bank—not on the board; I don't have any close connections like that.

But I wanted to get that out of the way before I introduced our next witness, Kim D. Saunders, who has served as president and CEO of M&F Bancorp, Inc. and M&F Bank, Mechanics & Farmers Bank, since February of 2007, and before that held the same title at Consolidated Bank & Trust Company. She was the second female president and CEO in Consolidated Bank's history, a distinction she also holds at Mechanics & Farmers Bank.

Ms. Saunders has a B.S. degree in economics from the Wharton School of Finance at the University of Pennsylvania, and an honorary Doctorate of Humane Letters from Shaw University in Raleigh, North Carolina. We welcome you today. To the extent that there is such a thing as a personal banker, Ms. Saunders might be it, although she is way—150 miles away from where I am in Charlotte.

So we recognize you for your statement.

**STATEMENT OF KIM D. SAUNDERS, PRESIDENT AND CEO, MECHANICS & FARMERS BANK**

Ms. SAUNDERS. Good morning, and thank you. Mr. Chairman, Ranking Member Miller, and other distinguished members of the subcommittee. Again, my name is Kim D. Saunders and I am president and CEO of M&F Bancorp, Inc., and Mechanics & Farmers Bank. On behalf of the boards of directors of M&F Bancorp, Inc., and Mechanics & Farmers Bank, I am honored to provide you with comments on this very important subject of preserving and expanding minority banks.

M&F is a $223 million community bank that conducts business in four of North Carolina's largest markets. The bank is celebrating its 100th anniversary throughout 2007 and 2008, and our parent company currently is anticipating approval of a merger agreement that should elevate Mechanics & Farmers Bank into the top five largest African-American-owned banks in the United States.

In deference to this committee's time, I would like to focus on the specific areas that I believe offer the potential of substantive assistance for minority banks. They are how regulators may increase utilization of technical assistance among minority banks, and specifically legislative steps that should be taken to assist minority banks to raise capital and to operate efficiently.

In August 2006, the FDIC's Vice Chairman, Martin Gruenberg, identified some of the challenges to minority banks operating in a highly profitable manner: the relatively higher cost of doing business in communities with incomes below market average; high immigrant populations; smaller deposit base; and a preference for in-person service.

To assist minority banks in addressing these unique challenges as well as facilitating capital investments in these institutions, I recommend the Committee on Financial Services consider legislation to ensure that bank regulators provide the necessary notification regarding the array of technical assistance services that are available, and to amend regulatory peer group benchmarking and examination evaluations to recognize the differences between minority banks and the UBPR-designated peer groups.

Finally, although I recognize that the Federal tax legislation is outside the purview of this committee, the ability of minority banks to raise capital would be enhanced if the CDFI fund guidelines were modified to allow tax credits for investments specifically in those institutions, more specifically with respect to increasing the use of technical assistance by minority banks.

Banking regulators should correspond at least semi-annually with the CEOs of the minority banks they oversee to apprise them of the forms of technical assistance that may be available and to provide the appropriate contact information for future reference.

They should also utilize this opportunity to determine what other pertinent forms of technical assistance could be provided.

Regulators should be proactive in communicating with minority banks, especially those deemed to be low-performing. Our overall relationship with regulators has been positive, but there is room for improvement.

In terms of specific legislative steps to assist minority banks to raise capital and operate efficiently, let me state clearly that my bank and the other minority banks share the regulators' goal of ensuring the safety and soundness of the banking system.

The GAO report clearly highlights the traditional and universal difference in performance between minority and majority banks. However, regulatory benchmarks by which minority banks' performance is graded always compares these institutions with the UPBR-designated peer groups such that a truly equitable comparison of performance factors is not considered nor possible.

The Financial Services Committee should consider legislation so that regulatory peer group benchmarking and examination evaluations are tailored to recognize these differences. Just as there exist today certain examination differences for money center banks versus smaller community banks, regulators should modify the grading process utilized in bank examinations by comparing minority banks to a peer group of other minority banks, and within the context of this peer group structure, apply the factors of safety and soundness.

Finally, and as aforementioned, while the Financial Services Committee does not have jurisdiction over taxes, which is the purview of the Ways and Means Committee, there is a palpable role for incentives. The market places such a significant discount on the value of minority banks that we are at a significant disadvantage regardless of our stature of profitability in our abilities to raise capital. Therefore, the CDFI fund guidelines should be modified to include tax credits for investments specifically in minority banks.

It is the sincere wish of the boards of directors of M&F Bancorp and Mechanics & Farmers Bank that this committee will consider the recommendations made today and take the necessary actions to truly preserve and expand minority banks.

Again, I am honored and appreciative of this opportunity to testify, and I am available for questions and comments from this distinguished panel of committee members. Thank you.

[The prepared statement of Ms. Saunders can be found on page 74 of the appendix.]

Chairman WATT. Thank you so much for your testimony. She said she was a little nervous, but she did fine—wonderful. Thank you.

We welcome Representative Greg Meeks, who is not a member of our subcommittee, but is a member of the full Financial Services Committee. I understand that he may wish to make an opening statement. If so, I would ask unanimous consent to allow him to do that.

Mr. MILLER. Who is wanting to speak? I want to know before I grant unanimous consent. Oh, Mr. Meeks. Okay.

Chairman WATT. He is reserving the right to object. I think he is giving you a hard time this morning.

Mr. MEEKS. He always does. I will get him in the gym tomorrow.

Thank you, Mr. Chairman. I am very thankful to you, Mr. Chairman, for holding this hearing. Coming from the City of New York, and listening to you as you talked about Ms. Saunders, I want to say that in New York we have one bank, Carver Savings Bank, where we have an individual whom Ms. Saunders reminds me of, Debbie Wright, who is the president of that bank.

I want the record to reflect that my account is at Carver Savings Bank, and that every—even my campaign's account, every dollar goes through Carver Savings Bank in New York. And we then try to advocate for all of the electeds that are in New York to try to put whatever—not only their personal money, but whatever political money they raise, if you are going to keep it at a bank, keep it at Carver Savings Bank because it is tremendously important to us and it is tremendously important to the development, the economic development, of our communities.

And so it is tremendously important—this hearing is tremendously important for me and important for communities throughout America because the banks, they are responsible for and help revitalize our communities. And when we are talking about individuals needing loans, whether it is for a home, whether it is for a business, whether it is, you know, in having someone that you can go in to and trust and you are talking about truly a neighborhood type situation of understanding the community in a way that no one else can, it is the minority banks that we have.

And there is a desperate need, I believe, all across this Nation to make sure those that we have, that we cherish, and that we make sure that that playing field is leveled and equal for them, and that they are evaluated in the appropriate way. And so I am thankful to be here at this hearing.

I am also thankful to be sitting in the Financial Services hearing room, Mr. Chairman, and seeing so many people of color testifying. Too often, that is not the case here in this hearing room. And I look forward to the individuals who are testifying to be also testifying very shortly because I know that they are going to be the heads of many of their regulatory agencies in particular. And so I look forward to the government reflecting America, and having them as heads of some of the regulatory agencies, and testifying before the full committee representing their agency in that capacity.

I yield back the balance of my time.

Chairman WATT. I thank the gentleman for being here, and I am personally aware of his longstanding commitment in this area and his predecessor's longstanding commitment in this area. Representative Floyd Flake, who formally chaired this subcommittee, was in office before Representative Meeks, so we know that congressional district has a long, longstanding commitment.

Now, I have to chair this subcommittee, so I am going to be here, but I know some of the other members have commitments that may require them to leave. I have a bunch of questions, as you can probably imagine, but I am going to defer my right to go first and would recognize Ms. Waters for 5 minutes for questions.

Ms. WATERS. Thank you very much, Mr. Chairman. I would ask unanimous consent to submit for the record my disclosure statement, which includes my husband's service on the board as a director. He is also a shareholder in OneUnited Bank.

Chairman WATT. Without objection.

Is that required?

Ms. WATERS. I beg your pardon?

Chairman WATT. Maybe I need to do that, too. Is that required?

Ms. WATERS. Well, I think we should always—

Chairman WATT. Okay. We will put it in the record.

Ms. WATERS. —put it in the record. And while we are doing that, let me just explain for those who are wondering about why so many of us have personal involvement with minority banks.

In the African-American community, the test of your commitment to economic expansion and development and support for business is whether or not you put your money where your mouth is. And so for people who may be in the audience who don't understand all that you are hearing, you will find that most black professionals belong to, participate with, their minority banks in their community. It is expected of us. We should do it. And it is a true test of our commitment. So I want that on the record also for those people who don't understand our relationship to minority banks.

Having said that, let me just say to our agencies that testified today that the report on minority banks, the regulators' assessments of the effectiveness of their support efforts, have been limited. The statement by Mr. Scott is really kind of an indictment on your ineffectiveness.

We are not here to beat up on you this morning. But while I appreciate your testimony about the conferences you have attended, we really want to get to the core of what your assistance is really all about.

Have any of you been involved in assisting minority banks with capital formation or access to capital so that they would be able to provide better services? I see Ms. Thompson is saying "yes." Would you tell me in as short a period of time as you possibly can, what have you done to assist with capital formation? Is it Ms. Thompson or Ms.—Yarrow, is that it?

Ms. YAKIMOV. Montrice Yakimov.

Ms. WATERS. Yes.

Ms. YAKIMOV. Our agency at the regional level, at the highest levels in our regional offices, has worked with a number of our institutions, and is reaching out to potential investors and supporting their efforts to raise capital.

Ms. WATERS. Who have you been successful with?

Ms. YAKIMOV. I think we have some positive stories to share. There is one effort that is difficult to talk about right now because we are early in the process.

Ms. WATERS. You don't have to name names. Just tell us, there has been a particular effort that you have made that helped to identify and assist in getting "X" number of dollars for capital for a minority bank.

Ms. YAKIMOV. Yes.

Ms. WATERS. How much?

Ms. YAKIMOV. You know, I would be happy to submit that for the record. I don't have the specific dollar amount. But I do know that there have been a number—

Ms. WATERS. All right. We will get back to you on that.

Ms. YAKIMOV. Sure.

Ms. WATERS. Because this is what we are really interested in, not the conferences and the generic outreach. We want to really talk about, for example, who was involved in saving a minority bank that may have been taken over by a majority bank in a merger? Has anybody been involved in that kind of activity?

Ms. THOMPSON. The FDIC regularly gets involved in—

Ms. WATERS. I am sorry. I didn't hear you, Ms. Thompson.

Ms. THOMPSON. Sorry. The FDIC regularly gets involved in troubled institutions.

Ms. WATERS. Give me an example of a minority bank that you have helped to save.

Ms. THOMPSON. I can't talk about open institutions. But I can tell you and assure you that there have been near-failures in minority institutions where we have put together bid lists that comprise specifically—

Ms. WATERS. Are you familiar with Independence Bank?

Ms. THOMPSON. Yes, I am.

Ms. WATERS. Do you know that was a minority bank that was owned by a minority family for many years in this area that was taken over by one singularly dedicated white male, who has ended up with 51 percent ownership of the bank? Were you involved in that?

Ms. YAKIMOV. That is—

Ms. WATERS. Oh, you were involved in that?

Ms. YAKIMOV. I am sure Ms. Thompson is happy to pass that one on to me. Independence is supervised by the Office of Thrift Supervision. Representative Waters, I appreciate your point. I can share with you that the OTS did reach out to potential partners to retain the minority ownership of the institution. It is difficult to talk about all of that. Some of it has been publicized in the media.

Ms. WATERS. Okay. I am not going to let you go on. I just bring this up as a point of reference to let you know that we know about these things, and I am very much involved. I kept up with this effort with Ms. Carolyn Jordan, who was the first African American to serve in the Congress of the United States on the Banking Committee many years ago, a brilliant woman who worked very hard to try to save that bank.

I just bring that to your attention to let you know that we are serious about what is supposed to be law and supposed to be your attempts to honor Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 that established goals toward which Federal regulators must work to preserve and promote such institutions.

And I want you to know that I was involved in reaching out to the FDIC in particular when there was another bank that was about to be acquired by a major white bank out of Illinois. And basically, I was told that there was nothing that could be done.

Now, let me be clear. We are all interested in making sure that our banks are sound, that they are operating properly, and that they are following the rules and the laws. So I don't want anybody to think that we are trying to get something for minority banks that they don't deserve.

But let me just say to you that we do not believe that our agencies who are charged with this responsibility—and it is pretty much documented in this report—are doing enough. I appreciate some of the recent efforts to organize after this report was in process. This is very important to African American and minority communities, and we are going to do everything that we can to assist you.

We like the recommendations that are coming forward today about what we can do. And I particularly want to know about the peer review more, and I want to know about the capital, the reserves that are required for so-called at-risk institutions, so that we can see what we can do legislatively to assist our minority banks.

Having said that, let me wrap up because I am over my time. Do any of you have any suggestions for legislation that would help you, as we have coming from our minority institutions? What would you suggest we do that could be helpful to you?

Chairman WATT. All of them are swallowing hard. So maybe we should ask them to think about that and come back with written recommendations, if they have any. And maybe you can do it in consultation with others in your regulatory structure.

Ms. WATERS. Thank you very much, Mr. Chairman. I yield back.

Chairman WATT. We unfortunately heard the bells and whistles going off, which means that we have a series of three votes. The first is a 15-minute vote, followed by two 5-minute votes.

We have time to get in one additional question.

Mr. MILLER. Maybe two.

Chairman WATT. If there is somebody who will not be able to come back—

Mr. MILLER. Well, now, the minority side has some rights over here.

Chairman WATT. You have the right to go.

Mr. MILLER. Nobody wants me to buy bank stock, but, I mean, I want to speak.

Chairman WATT. You have to come back.

Mr. MILLER. I am going to be back.

Chairman WATT. No, that is fine. I was going to go to somebody who might not be able to come back.

Mr. MILLER. Well, for the record—

Chairman WATT. In that case, I will recognize the gentleman for 5 minutes. I would have given him the right to do that anyway.

Mr. MILLER. For the record, I bought quite a bit of bank stock yesterday from my perspective. But nobody is here that I bought—there are some great deals out there in the banking industry, I hate to say it, as you all know.

This has been a very good panel. I am just amazed that everything stayed—probably the first time ever that many stayed within the 5-minute timeframe. And it is really good to see.

Mr. Scott, let's start with you on this side. Can you please describe the technical assistance that you are providing to minority banks that you think is of benefit to them, and how many banks utilize the assistance available?

Mr. SCOTT. Mr. Miller, as GAO, we actually are not involved in providing technical assistance to the financial institutions. The work we did focused on the efforts by the regulators—

Mr. MILLER. But you did a study on it? Yes.

Mr. SCOTT. We just reviewed their efforts. Yes, sir. So I would defer to the regulators to describe their technical assistance effort.

Mr. MILLER. Okay. And the GAO study in 1993 on minority banks, has there been significant growth in minority banks since that study was done, from your perspective?

Mr. SCOTT. Most recently, I believe the number we have in our report is around 195. I think the regulators are saying over 205 now. So there continues to be some growth in those numbers. Yes, sir.

Mr. MILLER. Mr. Cooper—Cooper, excuse me. I will get it right. I don't want to be wrong—I really enjoyed your testimony. Is there a reason that you couldn't sell common stock to maintain minority management in that same process? And wouldn't this balance both concerns, having adequate capital and accessing capital like other banks, but maintaining minority leadership roles within the bank?

Mr. COOPER. The short answer to that is no. But first I would like to echo Congresswoman Waters, that in no way are we advocating compromising any of the standards of safety and soundness, nor are we requesting that this committee contemplate any measure—

Mr. MILLER. But to my question, why couldn't you sell common stock?

Mr. COOPER. Well, we could sell common stock. The concern there is that you actually dilute your shareholder base, and that minority banks are at a competitive disadvantage in that, for the majority, if you go out and have a public offering, you are still a majority institution. As a minority bank, if you go out and engage in that same activity, then you risk losing your minority character either in the initial public offering or in sort of a secondary offering.

Mr. MILLER. But how do individuals who believe in minority banks—let's say I believed in minority banks and I wanted to invest in a minority bank to assist you in what you are doing in an area. That seems counterproductive that the bank couldn't allow that because it increases your assets and available funds to serve the community.

Mr. COOPER. Well, as we know, there are individuals who can invest in institutions, but the resources of most individuals are relatively small. The access that or the advantage that minority banks actually have is their access to large institutional investors, such as large media conglomerates, insurance companies, oil companies, and the like, and that they are willing to invest money in preferred shareholdings which have no voting rights.

Mr. MILLER. So you are afraid that common stock sales would create a situation where a different group could take over the bank rather than the minorities?

Mr. COOPER. Correct. And then by definition, you wouldn't have a minority bank.

Mr. MILLER. It is sad to say, but that is counterproductive to everything we are trying to do in society to integrate groups in and create opportunity in a fashion. I mean, it really is, but it is sad.

Mr. COOPER. I would respectfully disagree with those remarks, that it is sad. Minority banks, particularly African American—

Mr. MILLER. I mean, it is sad that the others can't be involved in the process.

Mr. COOPER. No. Others certainly can be involved, and any of our banks welcome capital that is provided to our institutions. So we are actually not refusing capital from these different sources. I guess what I would suggest to you is that those amounts of capital can be found in limited amounts as opposed to the larger amounts of capital that banks need to survive and prosper and grow.

Mr. MILLER. Ms. Thompson, is there a limit with what regulators can do with respect to balancing safety and soundness concerns and helping minority institutions at the same time?

Ms. THOMPSON. Well, that is a priority for our organizations.

Mr. MILLER. Microphone?

Ms. THOMPSON. I am sorry. Yes. Safety and soundness of financial institutions is a priority for our organizations. I would say that capital is important because capital really is used to absorb unexpected losses, and it promotes public confidence. And when people see that FDIC seal, it ought to stand for something.

Capital is critical in terms of the institution. And we have taken a look at some of the suggestions that have been made by Mr. Cooper, with regard to preferred stock. These instruments are kind of a hybrid. They have some characteristics that look like equity, and they also have characteristics that look like debt.

And when you are talking about capital, we want pure capital. We want to make sure that there is money available to absorb losses. Preferred stock represents a debt obligation for the institution because you have to pay dividends, which is effectively interest. So we want to make sure that when we are talking about capital, that it is there and it is available to absorb losses.

Mr. MILLER. Do minority institutions face different challenges in respect to sound management than other institutions would?

Ms. THOMPSON. Well, I don't know that they face different challenges with regard to sound management. I would venture to say that I am familiar with many of the management of these organizations, and I think that they are as sound as any other in their peer groups.

I would say that there are some challenges that are specific to minority institutions. They often operate in economically distressed areas. Many times they operate in urban areas. And they often have a high reserve for losses. They have high expenses. They have a high touch operation where they have to deal directly face-to-face with their customers. So there are some challenges that are unique to minority institutions.

Mr. MILLER. Well, I am in a situation, Mr. Watt, of too many questions and too little time. Thank you.

Chairman WATT. Well, we will recognize you again on the next round of questioning, but right now we have about 5 minutes to get to the Floor. So we will recess, and we should be back immediately following the series of votes. That should be probably 20, 25, or 30 minutes at the most, so you all be at ease, and we shall return.

[Recess]

Chairman WATT. We will reconvene. Mrs. McCarthy, unfortunately, had another meeting she had to go to, but she said she would get back, hopefully, before we finished up. The ranking member, I think, is on the way back from the Floor. And it is my turn to ask questions, anyway.

And since I have so many, maybe I should get on with it so as not to hold up either the panel or members who come in. There are a number of areas here that I would like to explore. Perhaps I should start with Mr. Scott, to ask a general question.

It seems to me that the regulators in most of the areas over which they have regulatory authority and which they consider important, either because they themselves understand that it is an imperative for them to deal in a certain way, or because the Congress has made it absolutely clear to them that we have an expectation.

We will create a set of outcome-oriented performance measures. I am just thinking about some of those areas. There are some specific criteria that define whether you are safe and sound. There are some specific criteria, although the regulators didn't start out thinking that maybe this was all that important, there are some specific criteria that define success or failure to meet CRA.

I don't see anything in this area where that has occurred. Mr. Scott, your agency—I guess you weren't there in 1993—defined this as something that might have been desirable in 1993. You identified again in the 2006 report that none of these agencies, none of these regulators, have established outcome-oriented performance measures, is the way you described it.

So I guess my first question, Mr. Scott, and then I would like to hear from the regulators in this general context, is many of the same recommendations you made, the GAO made, in 1993, you made again in 2006. In your consultation with the regulators, have they provided reasons for not implementing the 1993 recommendations, first of all?

And can the GAO offer any suggestions for banking regulators in this whole context of establishing outcome-oriented performance measures, or is that something that they should be taking the initiative on? What kinds of things might be considered an outcome-oriented performance measure?

Let's start with Mr. Scott on that. And this is not designed to be unfair to the regulators or to beat up on you. That has never been my intent. My objective is to be constructive here. But I would like to hear from all of you in that context.

Mr. SCOTT. Thank you, Mr. Chairman. In terms of the progress the agencies made or did not make between our 1993 report and our 2006 report, I would respectfully defer to them to explain to you what was going on in the intervening years. In terms of—

Chairman WATT. But did they say anything to you about—I mean, did you ask the question? You seem to be finding a lot of the same things.

Mr. SCOTT. We had discussions with each of the regulators. I think some of what we saw was that they were taking some steps. But the point we made in our most recent report was that it should be a comprehensive approach—it should be on a more routine, regular basis, so you have ongoing feedback that can be provided to the regulators so that they will know realtime that the actions they are taking—the technical assistance, the outreach meetings, the conferences—are they really making a difference?

So rather than doing things on an ad hoc basis, what we are really focusing in on is trying to encourage them to do these surveys and other outreach efforts on a more routine basis that allows them to gather feedback, analyze the data, and then where necessary, make changes to their outreach programs or activities. That is really the goal of our recommendations, to get more realtime data so that the agency is in a better position to be more responsive to the institutions.

In terms of outcome-oriented performance measures, I mean, clearly there is a range of opportunities there for the agencies to implement those. The bottom line is that for any action the agencies take, we want to make sure that the actions make a difference. If you are going to do a conference, you want to know not only that people are attending, but the material they are receiving, the information being shared is making a difference in their operations and the financial stability of the institution.

For example, your examinations, how are they impacting these institutions? One outcome-oriented performance measure could be—you know, if you examine a bank and find some deficiencies, what steps are the institution taking to correct those deficiencies? If you hold a conference, not only how many people attend the conference, but did it make a difference in terms of their knowledge base growing?

So those are the sorts of things we are saying the agencies may want to consider in terms of outcome-oriented performance measures. Is what you are doing making a difference? And right now it is sort of tough to tell exactly what kind of difference some of the activities are having at the end of the day.

Chairman WATT. Ms. Thompson, Ms. Yakimov, Ms. Braunstein, Mr. Walsh, I would love to hear from you about this whole concept of outcome-oriented performance measures. Failure to have outcome-oriented performance measures, as I said in my lead-up to the question, may suggest less of a feeling of importance to the outcomes.

The banks, for example, complained for years that CRA was a process-oriented thing. We get graded on how many times we meet with a community group as opposed to whether anything comes out of that meeting, no performance-oriented, outcome-oriented result. And just about everything I have heard you all talk about is process—very little about outcome. I don't want to be unfair.

But talk to me about this whole concept of outcome-oriented performance measures.

Ms. BRAUNSTEIN. Congressman, yes, I just want it clear for the record that the 1993 GAO report that you are talking about only focused on the agencies that are covered by FIRREA. We were not included in that report, so I can't speak to us not doing something that we weren't part of.

Chairman WATT. Well, maybe I should just hear from Ms. Thompson and Ms.—

Ms. BRAUNSTEIN. But I do want to address the outcome-oriented.

Chairman WATT. All right.

Ms. BRAUNSTEIN. We have been doing a lot of activities with minority-owned institutions for many, many years, and I will admit that our outcome measures have been done on a very informal basis up till now. We have close relationships with all the banks we supervise, and we have held discussions with them about their needs and the effect of our exams and our technical assistance. But it had not been formalized up till now.

As part of the program, the new program that we have developed, the training and technical assistance program, we have built into that a feedback mechanism so that we can get information not just through surveys, but some of that feedback mechanism is actually face-to-face interactions with the institutions that undergo the training and go to the classroom training to find out, was it responsive to their needs? Was it helpful to the issues that they are facing in their institutions? And if not, what could we do to improve that?

And we will continue—we built in this flexibility so we can continue to tweak the materials and the sessions to make them responsive and to make sure that they have good outcomes for the institutions.

Chairman WATT. Let me go to Mr. Walsh next, and then we will get to the two people who were actually covered by the 1993 report. Even before you say it, Ms. Braunstein has acknowledged that you all were not specifically directed or encouraged to do anything in the 1993 report. So I have that as a background. Do you want to respond on the outcome-oriented performance measures part of the question?

Mr. WALSH. Yes, Mr. Chairman. With that as a given, I would echo some of the things that Ms. Braunstein said in that we have focused recently on a much more specific and intensive process of interaction with both our staff that supervise minority institutions and the institutions themselves to understand better what can be done better in the processes of supervision to support the institutions and to get feedback from the institutions themselves about how that is working.

But even that is somewhat process-oriented in that it is reviewing the nature of these interactions. I would say that the supervisory process is in fundamental ways very performance-oriented in that we look at the performance of the banks as to capital assets management, etc., and then their actual financial performance.

So that is the basis on which we are reviewing them, and we have made more of an effort to look at minority banks within their peer group to see how they are doing and how that performance compares to the wider range of institutions that we supervise.

Ms. THOMPSON. With the FDIC, we have been very intentional about our outreach and outcome performance measures. I will give you some specific examples.

We talk regularly with minority institutions. We host conferences and forums around the country to find out what the issues are with the institutions we supervise and those that we insure. We have six regional offices, two area offices, and every year they are required to have outreach meetings.

As a result, we try to find out the topics that are of interest to minority institutions. Specifically, at our national conference we heard throughout the regions and throughout the country that capital was important. So we made sure that we had people at the conference to address some of the capital issues, specifically for minority institutions.

We heard from our institutions that they had concerns about the BSA examination process, so we held forums to talk and specifically go over the BSA examination process so that they would better understand some of the issues they were faced with.

We heard from our institutions that they were concerned about Information Technology (IT), so we brought IT examiners in to talk about the IT examination process, electronic banking, and some of the nuances that were associated with these matters. We also heard from them that they were having concerns about accounting, so we brought our chief accountant to address the minority banks so that they could find out what the new accounting rules were and how they would be applied to their specific institutions.

In addition to the conferences and things that we do on a regular basis, one of the things that we require our examiners to do is 90 to 120 days after an examination of a minority institution, they are to contact that institution to review the exam report and to make sure that the institution understands any issues or concerns that we have highlighted in the report. And we can help them. We provide technical assistance through the pre-application process, through the branch application process, and we also take ad hoc calls.

One of the other things that we have done that is pretty outcome-oriented is in response to many people who said they can't find their policies. So we redrafted our Web page and made our policies that were specific to minority institutions available on the FDIC's public Web site so that there wouldn't be any confusion about what our requirements were.

Ms. YAKIMOV. In response to the 1994 GAO report, the OTS conducted a survey of its institutions to get a better sense of what more we could do, and the number one recommendation was to provide additional technical assistance, so we embarked upon a program to expand our efforts.

In some sense, it is all about performance and outcome—pardon me, I am fighting a cold—in the sense that we tailor our outreach and our one-on-one contact with minority institutions, specifically on issues that they have raised or issues that have come up during the course of examinations, where there may be operating challenges or struggles. So it is all about tailoring a program that meets the specific need of each minority institution.

In addition to that, I think going forward, as part of our strategic plan, FIRREA requires—it calls for the agencies to promote the creation of new minority institutions. One of the reasons I mentioned our outreach to different conferences where there are people of color who may be interested in starting an institution is it is very easy to measure the success of your outreach on that count alone. Was our outreach to various groups successful that were interested in starting a financial institution? That is one that is clear, that is not subjective.

But I think it is important to note that there is not a one-size-fits-all approach to the minority institutions in this country. There are different strategies, core competencies, strengths, and we have tailored our program to really be specific to what those individual needs and requests have been.

Chairman WATT. All right. I may be missing something here, but I guess my outcome-oriented performance measures get a little bit more basic than that. But I will pursue that with you.

We are going to kind of go back and forth here for a little bit. I want to go to Mr. Miller, and then to Mr. Meeks for questions.

Mr. MILLER. Thank you very much. This end of the dais this time. We have started at that end. Ms. Saunders, I really enjoyed your testimony, and I am trying to figure out what we can do to help. I notice in your testimony, you said that you recommend the Committee on Financial Services consider legislation to assure that bank regulators provide the necessary notifications regarding the array of technical assistance services that are available. And I appreciate that.

I had my staff go online to see what was available, and under the FDIC minority depository institution Web site, there was an array of information with eight regional coordinators, including phone numbers and Web sites. How better do you think we can get the information out there and encourage minority bankers to glean this information when we are putting it on site and the agencies have it?

Ms. SAUNDERS. As I indicated in my statement, my suggestion is that there be semiannual contact with each CEO. The population of minority banks is a discrete number that is—

Mr. MILLER. To discuss things other than what is on the Web site?

Ms. SAUNDERS. Yes, sir. Because as was mentioned, the technical assistance that one institution may need may vary from another institution.

Mr. MILLER. Can you give us a list of what you think that information might be? Is that possible?

Ms. SAUNDERS. What the services might be?

Mr. MILLER. Yes. What information the institutions might need that isn't readily available today.

Ms. SAUNDERS. As I mentioned, it would actually be tailored specifically to that institution. To give you a specific example, we are in the midst of a merger and acquisition, as I mentioned. For us, it might be specific assistance relating to the filing of that application—the obtaining of capital to support that acquisition.

Another institution I was formerly CEO of, Consolidated Bank, was a troubled institution. Its needs were different than ours. We are in a growth mode.

So as I mentioned, just a semiannual contact from that regional coordinator directly with the CEO of each respective minority institution might facilitate the outcomes of that institution from a performance perspective.

Mr. MILLER. But within the industry, it seems like there needs to be more outreach on the part of the industry, too. It seems like—and I will go to Mr. Scott because I think you in your testimony found that only 30 percent of minority businesses, banks, are taking advantage of the training, education, technical assistance that is there.

Is that a correct number?

Mr. SCOTT. Yes. Of those we surveyed, yes.

Mr. MILLER. And you found that the nonparticipant banks may be missing very important opportunities. Is that also a factual statement?

Mr. SCOTT. That is correct.

Mr. MILLER. Overall—and it was part of an opening statement—did you review whether the overall minority community and underserved community is being adequately served today by minority banks and non-minority banks? Is there any disparity, where larger banks aren't reaching out to provide assistance and opportunity? Is that a factor? Are they being served today?

Mr. SCOTT. I would defer that to the regulators. That was not part of the scope of our review.

Mr. MILLER. Yes. Regulators, I will let you answer that one.

Ms. THOMPSON. We are hopeful that all communities are being served in a safe and sound manner by financial institutions that are supervised by the regulators on this panel.

Mr. MILLER. Yes. I know the bank I deal with, and I used to deal with them as a builder. And they were very proactive because of the mandates placed on them to make sure that they were reaching out to underserved communities. Because what used to be considered redlining, they were very, very cautious, and that can never be challenged with that argument because of the concern.

Are banks still reaching out as they have in the past?

Ms. THOMPSON. Banks are very covetous of their CRA rating. In fact, most of the institutions that are FDIC-insured are rated satisfactory or outstanding throughout the banking community.

Mr. MILLER. Mr. Cooper, you are—I am sorry. Go ahead.

Ms. YAKIMOV. Well, I was just going to mention of the 22 minority institutions, savings associations, a little more than half are rated outstanding in terms of meeting the credit needs, the financial services needs of the communities they serve. Just under half are rated satisfactory.

Mr. MILLER. Mr. Cooper, is the National Banking Association—I know you are very involved with the National Banking Association—are they reaching out to minority banks and trying to educate them on the different information and opportunities available to them, and encouraging them to participate more than they have in the past?

Mr. COOPER. Absolutely.

Mr. MILLER. What result are you getting? If we are only getting a response from about 30 percent, do you see it increasing in the future?

Mr. COOPER. I do see it increasing in the future. But again, you actually have to ask the reasons why aren't these banks—why aren't our banks taking advantage of the technical assistance? And again, we have heard some remarks from the regulators. I can give you just some anecdotal evidence of what is going on.

Mr. MILLER. But you as an association are trying to proactively reach out to get them more involved?

Mr. COOPER. Absolutely. Yes. As the oldest and largest trade association for minority- and women-owned banks, that is part of our mission.

Mr. MILLER. Ms. Yakimov, do you believe that currently FIRREA is basically—are they meeting the goals that have been set before you? Do you believe that is being accomplished today or not?

Ms. YAKIMOV. Do I believe that we are living up to the goals and the standards that FIRREA sets out?

Mr. MILLER. Yes.

Ms. YAKIMOV. I think we have a good track record in living up to those responsibilities. Could we do more? I think yes, we can. And part of the strategic plan that we are putting together will be to carry it forward.

But I think dating back to the 1970's, we have tailored technical assistance programs to meet the needs of our institutions. We are going to do more with respect to education. We think that—we have done counseling, to the extent that is education and guidance, sending examiners onsite in some cases, working alongside our institutions. So we have done some training.

But we are planning to expand on that and to do more with that. But yes, I think the OTS has worked very hard through our regional offices and in Washington to try to meet the needs of our minority institutions, and we are looking forward to doing more.

Mr. MILLER. Well, I have more questions, but I will wait till the next round. Thank you very much.

Chairman WATT. Mr. Meeks, you are recognized for 5 minutes.

Mr. MEEKS. Thank you, Mr. Chairman.

I just have a few questions. Ms. Thompson, let me ask, I believe in your testimony you mentioned that minority depository institutions had much lower levels of non-interest income than the rest of the industry. I think you said something about 19½ percent as opposed to 42.7 percent, respectively.

I am just curious: What are the primary sources of non-interest income? And then whether or not there was a correlation between that kind of income and the general population that MDIs represent.

Ms. THOMPSON. Well, fee-based income would be a source. And the minority institutions don't charge the high fees like many other institutions because, again, they are dealing with demographics that can be in economically challenged areas.

So some minority institutions have higher operating expenses. They have to spend more on training; they have to spend more on this high-touch operation—they are well above the expenses for other institutions that are non-minority because they really believe in this face-to-face contact, and it requires people. And there is just a lot of overhead expense that is associated with minority institutions.

Mr. MEEKS. So there is more of a personalized service, more hand to hand?

Ms. THOMPSON. Yes, sir.

Mr. MEEKS. In that regard, maybe less? Well, does it have anything also to do with activities like, for example, fewer individuals within the community may be involved in certain trust funds or something of that nature, so therefore there is less business there, and therefore you are not getting any fees from those areas?

Ms. THOMPSON. Well, many of the communities that minority institutions serve are underserved or unbanked. If you look at minority neighborhoods, there is a lot of financial services that are unregulated, so people in the communities have options that are outside of the financial institution that is insured.

You will find in most—in many minority communities high-cost financial service products and providers, whether it is a payday lender or a car title loan or just alternatives because many people in the communities are underserved. They may have banking accounts, but it is one of the things that the FDIC is working on, is trying to bring unbanked and underserved people into the financial sector so that they know their money is safe and it is covered through regulation and through FDIC supervision.

We are very intentional about this program that we have underway in eight areas—actually, nine areas around the country to bring unbanked and underserved people into the banking sector. And it is particularly focused in low/moderate income and minority communities.

Mr. MEEKS. Ms. Saunders, let me just ask you the same thing. Could you add anything? What is your experience as head of Mechanics & Farmers Bank, and is there anything that you could recommend that we look at as a committee that might try to help minority institutions so that they can be more efficient with reference to banking, and don't have to depend on payday loans and other—is there anything that you think that we can do in that aspect?

Ms. SAUNDERS. Thank you for your question. As was mentioned, our cost structure is higher because we do offer more personalized service. And as I mentioned in my testimony, understanding again that it is outside the purview of this committee, I do think there is an opportunity for tax credits and various incentives to be provided—when we bring the unbanked into the banking system, through the technical assistance that we provide. The institutions that we represent serve a critical role in terms of education and financial literacy in the communities that we serve. And certainly that benefits our country, and it could be recognized, I think, through certain financial incentives to these institutions such as Mechanics & Farmers Bank.

Mr. MEEKS. And I would assume that you, Mr. Cooper, would have the same response, or similar?

Mr. COOPER. I have a similar response. In my written testimony, I actually did discuss two programs that have been very beneficial to minority banks that are administered by the CDFI fund. One of those programs, the BEA program, is a program—and there is a competitive application process—but it is a program that has allowed particularly minority banks to receive stable capital.

There is another program called the New Markets Tax Credits program which last year provided $3.9 billion in tax credits. This was a program designed to provide income streams to banks that operate in these low- to moderate-income communities. Unfortunately, last year only one minority bank was the recipient of New Markets tax program. And therefore, it is our recommendation that there be some general preferences that are given to CDFIs and minority- and women-owned banks so that our banks can better impact and empower the communities they serve.

Mr. MEEKS. Let me ask both of you, Mr. Cooper and Ms. Saunders, again. Not too long after I got here, we had the passage of

Gramm-Leach-Bliley. I was wondering, has there been any move or any benefit to your banks as a result of the association with insurance companies and security firms? Have you seen—has there been any connection with any of them that would enhance your business, thereby stabilizing your institutions and growing at all?

Ms. SAUNDERS. Not at this point.

Mr. MEEKS. Nothing?

Mr. COOPER. By and large, you will find that the institutions in this sector are very small and haven't been able to avail themselves of the lowering of the—you know, the breakdown in the barriers. There are a couple of banks that have brokerage arms, insurance arms. But in terms of the fees that—the profit streams that have been received, they are pretty insignificant at this point.

Mr. MEEKS. Lastly, let me ask this question because I have been very concerned about the participation of minorities in the financial services industry. And I know that having competent staff is important, etc.

Where or how do you generally recruit for individuals that you need in your banks? I have been an advocate—in fact, in one of the GSE bills, I had an amendment saying that the new regulator needed to make efforts towards diversity there because it has been my opinion that when you have a government agency, and some of the regulatory agencies in particular, if they hire minorities in there, then the experience that they get from there, they now can go out and be employed by individuals like yourselves and in other institutions.

So I am just wondering, how do you find that, and the training, and would you say we need to—how could we improve the diversity within the financial services industry?

Mr. COOPER. Let me take a stab at it. There is certainly cross-pollination as between regulatory agencies, regulators who will go to the private sector and become members of our institutions and vice versa. There are also numerous training programs, both private and those conducted by the regulators as well.

Ms. SAUNDERS. We have been very successful in working with young people as early as high school through various nonprofits in employing them in internships. We also currently are working with local universities, of which there are a number in North Carolina, to employ part-time students to allow them to get exposure to the banking industry, many of whom have gone on to pursue careers in either the regulatory agencies or other banks.

In terms of recruiting additional talent from other institutions, we have been successful, I think, in selling the opportunity to see the banking business in its entirety. When you are a small shop, you do provide, I think, a unique career opportunity for someone who has an entrepreneurial spirit but also wants to obtain a comprehensive understanding of our industry.

So I would say to continue to support efforts by nonprofits and others, even for-profit corporations. My own career started with a minority internship program out of Chase of New York, which trained many minority bankers back in the 1980's. And I do think that those types of programs are necessary in order for us to continue to train now the Hispanic community and other minority groups to be successful in our career.

Mr. MEEKS. Thank you.

Mr. COOPER. I might just quickly add that success breeds success, and that these institutions aren't just providers of financial products and services. They truly are beacons of hope for the community. So to the extent you have strong, vibrant for-profit institutions, then you will be able to attract individuals to our companies.

But certainly we see many challenges that we face, so I would again hearken to the fact that to the extent we can strengthen these institutions, you will see more minorities coming to work for us.

Mr. MEEKS. Thank you. Thank you, Mr. Chairman.

Chairman WATT. Thank you for your questions. I have been trying to kind of let this go on without interruption as much as possible, so let me recognize myself again for a couple of questions.

They really follow up to one part of what Representative Meeks has raised here, the interplay between the Community Development Financial Institutions fund, CDFI, the Bank Enterprise awards, and the New Market tax credit. It was Representative Meeks' predecessor who was instrumental in at least two out of three of those, and Representative Rangel who was instrumental, probably, as much as anybody in the rest of them.

Mr. Cooper, Ms. Saunders, what is the process for minority banks to become certified under CDFI, and what benefits does that give you once you are certified? I want to deal only with CDFI now because I think there are three components here that I am not sure are playing themselves out in the way that they were perceived to play themselves out. But let's talk about the cost and process and the benefits.

Mr. COOPER. Sure. In terms of the certification process, essentially the bank needs to prove that 60 percent of its activities are engaged in low- to moderate-income communities. So it needs to show that 60 percent of its lending activities, where it is housed, where it gathers its deposits, where it provides its banking products, are in not just low- to moderate-income areas, but specific areas down to the census track. So that is with respect to certification.

In terms of the benefits, there is certainly a marketing benefit. It is a United States Department of Treasury certification, so to the extent the institution is out in the community and trying to raise capital or deposits, it actually has a certification by the U.S. Department of the Treasury that it engages in this do-good activity, if you will.

In terms of other benefits, there are several programs administered by the fund. There is a core award program. There is an FA, financial assistance, program. There is a BEA program. The program that—as well as New Market tax credits. The two programs that have been most beneficial to minority banks have been the BEA program because they provide equity awards to banks based on their lending in the most distressed communities, to the census track level; as well as—and the other program is New Markets tax credits, and as you are probably aware, these tax credits are very highly sought after.

And both of these programs were designed to put money in these low- to moderate-income communities, but also designed to provide capital, in the case of BEA, in minority banks that are primarily housed in these communities, and further income streams for these banks with respect to the New Markets tax credits program.

Chairman WATT. How much money is there in the BEA program?

Mr. COOPER. In the BEA program currently—well, at least last year—$11.6 million was allocated.

Chairman WATT. Compared to the New Markets tax credits, which is about—

Mr. COOPER. They are two different animals. But let me say with respect to BEA—

Chairman WATT. I understand they are two different animals. I think that is exactly the point I am trying to make.

Mr. COOPER. I am sorry.

Chairman WATT. Does an institution have to be CDFI-certified to be eligible for New Markets tax credits?

Mr. COOPER. No. You have to actually be what is called a CDE. You don't have to be a CDFI. And it is our recommendation that CDFIs who are actually engaged in the activities in these communities be given a general preference so that they can take advantage of this $3.9 billion tax credit program.

Chairman WATT. Ms. Thompson, you seem anxious to say something on this issue, so I want to give you that opportunity.

Ms. THOMPSON. Yes. We had a conference this year in August, and it was all the Federal regulators. The issue that came up from the persons who participated—there were lots of questions about the CDFI. We had the CDFI representative come to the conference and conduct presentations. But even after she left, there were lots of questions.

So I directed the FDIC's national coordinator to go to the Treasury Department and find out more about the process of having minority institutions being designated as CDFIs. And we have put together a program, working with the Treasury Department, where they will participate in our regional conferences, our outreach sessions, and our minority roundtables, so that they can walk through the process with applicants to achieve the CDFI designation.

Chairman WATT. Okay. But CDFI is a gateway to the Bank Enterprise award. CDFI doesn't seem to lead in the same way to New Markets tax credits. Am I wrong or am I right on that?

Ms. THOMPSON. Well, it is in both. The CDFI program is responsible for—they will get financial assistance, technical assistance. There are some other initiatives. The Bank Enterprise Award is also part of the community development entities and the New Markets tax credit. Once you get the designation, there are a lot of opportunities that relate to capital and other initiatives that are opened up to the institution.

Chairman WATT. But it doesn't seem to be working. You have, what, $9.8 billion, something like that, in New Markets tax credits. Only one minority bank received a New Markets tax credit, and you are saying that it is working?

Ms. THOMPSON. No. We are saying that there are questions with regard to the process. And we are willing to provide as much help as we can—

Chairman WATT. On the process, but not on the result, which gets back to the—

Ms. THOMPSON. To get the designation. And I think getting the designation will open the door. And to the extent we can provide any assistance to get these banks the designation, I think that is a huge step forward to getting to the next step.

Chairman WATT. Ms. Saunders?

Ms. SAUNDERS. Many of the minority institutions already hold this designation. So I think it really speaks to what Mr. Cooper mentioned earlier, which is that out of the $16 million, only one institution received New Markets tax credit dollars.

Mr. COOPER. In 2007. And that was a billion with a "B", not—

Ms. SAUNDERS. Oh, billion.

Chairman WATT. $16 billion?

Ms. SAUNDERS. $16 billion?

Mr. COOPER. No. That is how much the New Markets tax credit have been awarded over the last 5 years. Last year's allocation was for $3.9 billion.

Chairman WATT. $3.9 billion. Okay. But that is—see, there is a lot of difference between $3.9 billion in a New Markets tax credit that only one out of all of these institutions are getting access to, and what is the BEA? BEA is how much money?

Mr. COOPER. $11.6 million.

Chairman WATT. $11.6 million, as opposed to $3.9 billion. That is the point I am driving at here. And it seems to me that maybe the regulators might find that might be something that—I mean, that is concrete. That is a result. That isn't a process.

And that was the point I was trying to get down to a little bit earlier. Representative Waters asked all of you if you had any suggestions to make to us, and those are the kinds of things that I am looking for because we are trying to make this work.

We can have as many meetings, we can go through as many processes as we can go through, if at the end of the day you are ending up 13 years later with fewer and less vibrant and less sound minority institutions than you were 13 years ago. Go figure. Nice to have a meeting. Had a good time. It is the results-oriented thing that I am looking for.

My time is expired on this round. I recognize Ms. Waters for 5 minutes.

Ms. WATERS. Oh, thank you very much, Mr. Chairman.

The New Markets initiative, tax initiative, is extremely important to discuss here. I was just in Houston yesterday holding a hearing and talking with some of the business people there, where I discovered that Wachovia and Capital One have designations, have had them, and they are doing very well with them.

I don't know what is going on, but minority institutions do not appear to be given a fair opportunity to participate in these initiatives that many of us helped to develop under the Clinton Administration. It seems to me there are still questions remaining about CDFI, and certainly big questions about the New Markets initiative.

So I was hoping, and I would really hope, that those who are supposed to assist minority institutions maintain and expand, etc., would help us with some ideas on legislation that would get at these initiatives that have been developed that supposedly would be supportive, would help not only the minority banks, but we have to depend on these minority banks to provide opportunities for minorities where they operate. Many—

Chairman WATT. Will the gentlelady yield just for a second?

Ms. WATERS. Yes.

Chairman WATT. Not to let them off the hook on our expectation that they will do that, but just to point out to them that the New Markets tax credits are up for reauthorization in the Ways and Means Committee. And one of the things that Representative Meeks and I were talking about yesterday was that it might be advisable to try to see if we could have a joint hearing with the Ways and Means Committee, the subcommittee that has jurisdiction over that program—

Ms. WATERS. That would be a great idea.

Chairman WATT. —to try to impact that program in a way that is doing more in this area. Wachovia is one of the institutions that is in my congressional district, so I support their efforts to get New Markets tax credits. But I think we need to do more to make sure that minority institutions get more New Markets tax credits, too. And there may be some things that we can do to help.

I appreciate the gentlelady's yielding. But I am going to try to seek to have a joint hearing.

Ms. WATERS. That would be great. That is an opportunity that we really do need to try and take advantage of.

On this how minority institutions are judged, and you have spoken about it in bank terms in terms of peer review, Mr. Scott, what did you discover? Are they judging minority institutions based on their overall review of other minority institutions—peer review, I guess that would be—or are they holding them to the same kind of standards of major institutions? How is that working?

Mr. SCOTT. For the work we conducted, we weren't looking at how they were judging the institutions. We were looking at the return on assets in comparison to peer groups for broader context about how these minority banks were doing overall.

And so we weren't really looking at whether the regulators were using different standards and how they were judging them. It was more just context to point out overall how these institutions are doing on one key measure, that being return on assets, one measure of profitability. That was the purpose of our citing those numbers.

Ms. WATERS. I see. And what were the regulators talking about when you said that was one of your charges, Ms. Thompson?

Ms. THOMPSON. We have a regional director memorandum, which is in effect the policy that our examiners use to examine institutions. And in that memorandum, it specifically states that when examining minority institutions in particular, that examiners have the flexibility to define a custom peer group, not look at peer group just based on asset size. A custom peer group can be defined as a similarly situated institution, which could mean another minority institution.

Ms. WATERS. So have they been doing that?

Ms. THOMPSON. I hope they have. That is what I have instructed—

Ms. WATERS. No. We can't hope, now. We have to know.

Ms. BRAUNSTEIN. At the Federal Reserve, we do provide onsite to our minority-owned institutions customized peer statistics that are different than the uniform bank performance report.

Ms. WATERS. Could you, Mr. Chairman, see that we get a copy of how that is working? I understand there is not a lot of follow-up; even though some of you may be attempting some things, you really don't know how it is working because you don't have built into your systems any real follow-up. And that is one of the things that we may have to legislate, Mr. Chairman, to take a look at.

Now, one last thing, and that is reserve capital requirements. Tell me how that works, and tell me whether or not minority institutions for some reason are being asked to have higher reserves than maybe other institutions. Because there appears to be some risk factor that is above and beyond the norm. Would someone help me with that?

Ms. BRAUNSTEIN. The capital rules are mainly the Federal Reserve's in terms of holding companies. We have done a couple of things to address the concerns that have been raised by the other panelists over the last year, and we are still working at this, and it is not to say that we can't do more. But—

Ms. WATERS. How does it work now?

Ms. BRAUNSTEIN. Well, the way it works now is that for Tier 1 capital, a significant amount of the Tier 1 capital needs to be voting stock. And so we do—we require at this point common stockholders' voting stock to be the dominant element within Tier 1.

Ms. WATERS. Well, I thought—I don't know if we are talking about the same thing or not.

Ms. BRAUNSTEIN. So one of the things that we have—

Ms. WATERS. I really want to understand reserves because to me, reserves means an amount that you hold aside to be there to pay for whatever—losses, lawsuits, what have you. That is what I am talking about. I am not talking about the—

Ms. BRAUNSTEIN. Control?

Ms. WATERS. Yes. I want to know about the reserve. Are minority banks required to hold in reserve a disproportionate amount of capital or money, compared to other institutions?

Ms. YAKIMOV. Representative Waters, if you are referring to loan loss reserves, we would expect institutions to reserve in a manner that was consistent with their experience—not to overly—not to manipulate that, but to have in reserve for loan loss and leases an amount that has been consistent with their experience and what they can generally anticipate.

Ms. WATERS. I expect that, too. We have said over and over again that we believe in safety and soundness and all of that good stuff. We don't want anybody to think we are trying to—I want to know, is there something in the formulation of reserves of what is required that makes it seem as if minority institutions are asked to do more in holding these reserves than others? That is what I am trying to find out.

Ms. BRAUNSTEIN. The reserves would depend on the kinds of loans that are made, the risk assessments, and the bank performance. And so depending on those factors, there could be an appearance of that. But that is—but the same rule is applied to every—

Ms. WATERS. Mr. Scott—excuse me. Mr. Scott, did you take a look at this at all in the GAO's report in terms of reserves?

Mr. SCOTT. No. We didn't take a look at it other than pointing out the fact that having those higher loan loss reserves may be necessary for safe and sound operation of banks.

Ms. WATERS. Well, you know, I don't know. But Mr. Chairman, and I am going to finish this, if experience is one of the criteria that is used to determine how much money you have to hold in reserve, that is going to put us at a great disadvantage.

Now, if there are a combination of things, we need to understand what that combination of things is and whether or not it adds up to minority institutions being disadvantaged because they haven't been in business as long. They are lending to poorer people. Yes, they have had maybe more losses or foreclosures; I don't know what the makeup is.

And if I take a look at it, I can see. I can tell you right away. And I guess we will have to do that. But I was trying to understand what you understand about it because I wanted to ask you, do you think it is fair or do you think it should be fixed?

Ms. THOMPSON. The losses are typically based on the quality of the assets. And to the extent that an institution holds assets that are delinquent—and I will use a mortgage loan as example—if an institution has a high level of delinquencies and they are expected to go to foreclosure, we require the institution to hold loss reserves to offset any potential losses.

So the more delinquent your mortgage portfolio is, or your commercial loan portfolio, the more reserves you will be required to hold to offset—

Ms. WATERS. Mr. Cooper, is that how it works?

Mr. COOPER. Actually, Chairman Frank has spoken out on the subject. And I think you were referring to the recent policy statement on commercial and real estate that just—that actually came out maybe a little over a year ago. And it creates very specific thresholds for construction loans, 100 percent of capital, and multifamily and other loans of 300 percent of capital.

But because of the nature of our operations, where we operate, we are disproportionately impacted. So this is again a one-size-fits-all policy statement. And because of the statement, the examiners will come in and scrutinize our banks and criticize our banks in a way they would not criticize other institutions.

So again, it is a one-size-fits-all policy that really—there really was no consultation or thought given to what the specific impact would be on institutions that actually operate in the inner city.

Ms. WATERS. Thank you, Mr. Chairman. I yield back. I could ask 101 more questions, but you have been very generous. Thank you.

Chairman WATT. Mr. Miller.

Mr. MILLER. I have a question for the regulators.

Safety and soundness has to be paramount in any lending institution. Don't all small and community banks have to meet the same basic capital standards, whether it is a minority-owned bank or it is not? Aren't they applicable to everybody?

Ms. THOMPSON. Yes.

Mr. MILLER. Is there any that are more stringent upon the minority-owned bank than there would be a small community bank?

Ms. THOMPSON. No.

Mr. MILLER. Okay. So the problem I have is if we are dealing with basic safety and soundness issues, they have to be consistent and they have to be applied on a broad perspective to all individuals who place their money within a lender, a bank who is going to be lending them money. They have to be guaranteed that their money is being safeguarded and there is proper oversight.

It seems to me, from the testimony that I heard, that we have to reach out to minority banks to get them to participate in programs that are available. If only 30 percent are participating, we can legislate and regulate anything in the world, but if we don't get participation, it is a problem.

And Mr. Cooper, it is a long question, and I hate to ask this of you, but I have been listening to the testimony and reading everybody's testimony. You recommend that each banking agency amend their existing policies to provide that the regulators and examiners will thoughtfully apply any existing policies to the unique circumstances of a minority institution.

Yet Mr. Walsh from the OCC discusses how a portfolio manager is assigned to each bank and has ongoing responsibilities for understanding the banks unique characteristics and circumstances.

Ms. Thompson, of the FDIC, discusses how the FDIC has specific programs in place to educate bank examiners and sensitize them to the unique issues often found within MDIs.

Ms. Braunstein, with the Fed, has described how through their regulatory, supervisory, and community development functions, they consistently provide assistance to address the unique challenges and needs of the minority-owned banks.

Ms. Yakimov of the OTS discusses the development of training measures that the OTS has taken to ensure that examiners fully understand the operating environment and challenges that minority institutions face in serving their communities.

Mr. Cooper, in addition to what the OCC, the FDIC, the Fed, and the OTS are currently doing, what do you suggest the regulators do?

Mr. COOPER. I think we might be talking about two different things.

Mr. MILLER. No. My question was on one thing.

Mr. COOPER. I just answered a question in connection with a recent policy statement. And I guess we didn't hear the regulators talk about the impact of that policy statement, even today, on minority banks. There are other policy statements—

Mr. MILLER. I mean, it appears that all the agencies are doing everything in their power to reach out and to make sure that these minority institutions are successful, and that they have information provided to them, and that when regulators go out, they are trying to deal with the unique circumstances and situations that these institutions are in.

And I am not trying to be a bad guy here. I am really not. Chairman Watt and I have talked about how we get more participation. We can mandate and mandate and mandate it, but if nobody is going to participate, it is not going to make a difference. But what can you see that we can do that they are not already trying to do?

Mr. COOPER. Like I said, their technical assistance is just one action that can be taken. But we really have to think outside of technical assistance. FIRREA was about a lot more than just that. And we have actually provided some recommendations as to how these institutions can grow.

So it is one thing to say, hey, we are facing some particular challenges, and here is how you may or may not want to deal with the issue. But let me frame it this way for you.

Mr. MILLER. Well, I think they have a unique situation as far as growth when you can't sell common stock. So that makes it very difficult. I understand that.

Mr. COOPER. Okay. But let me frame it this way. What I believe we have it this way is more direct engagement, I think. Thirteen years ago we didn't have any engagement. We have more direct engagement. But what we need is really truly full engagement with the banking regulatory agencies.

Mr. MILLER. But don't you have to have participation to have full engagement?

Mr. COOPER. You absolutely have to have—

Mr. MILLER. And if we are only getting 30 percent of the banks participating, we are going to have 30 percent of full participation at best if it—

Mr. COOPER. But then you have to ask yourself, why isn't there the participation?

Mr. MILLER. And that is why I asked you—

Mr. COOPER. And yes—

Mr. MILLER. —the National Bankers need to be reaching out to encourage these banks to participate.

Mr. COOPER. Again, I think you need to have full engagement. And I think what you have, at least on the congressional level, is a mandate on the regulators. And certainly we are reaching out. And it is very nice, and we absolutely appreciate having the heads of the regulatory agencies visit us at our conventions, where we had Mr. Walsh and the directors of the other agencies. And that is a once-a-year event.

But again, coming to conferences, hosting an inter-agency conference where there are 500 people in the room is a very different situation than actually drilling down and having the type of dialogue that you need to have very substantive progress, and what I think we would all admit are very complex issues.

Mr. MILLER. All right. I have a limited amount of time, and I am going to run out. Ms. Braunstein, is there a limit to what regulators can do in respect of balancing safety and soundness and those concerns, and helping minority institutions? Are you somewhat hamstrung when there is only so far you can go? Is it not a fact?

Ms. BRAUNSTEIN. Well, I don't know that I would phrase it as a limit. I think that we try to work very diligently with our minority-owned institutions, the State member banks we supervise, to make sure that they are safe and sound because that is of paramount importance, but at the same time recognizing some of the unique characteristics and trying to exercise some flexibility in our standards and in our rules. And we will continue to do so.

Mr. MILLER. And in closing, Mr. Cooper and Ms. Saunders, could you both send me something in writing, some recommendations, something to enlighten me on the situation that we can—what you think we can do in the future to create a better situation than currently exists? Because I don't want you to think I am being argumentative. I am not. I just listen to the testimony and look at the numbers. I see, number one, a lack of participation. That has to be overcome somehow.

I would like to have some input from you on what you think we can do to make a better situation. I really appreciate your testimony, and if any of my comments were perceived as negative, they weren't meant to be. I just read the documents, have gone through the paperwork, and I am a little—you know, safety and soundness has to be top priority, number one.

I understand growth is a concern with the industry. I know you would like to grow it. And I know there are limitations based on some responses I have received to questions. But if you can help me with some information, I would appreciate that.

I yield back.

Chairman WATT. All right.

Ms. WATERS. Mr. Chairman, if I may?

Chairman WATT. I am happy to—

Ms. WATERS. Please let the record show that we have insisted that we support safety and soundness on more than several occasions here today, that we all believe that safety and soundness must be first. And we have said that—

Mr. MILLER. And I never meant to imply that, if you thought I did. I didn't mean to imply that there was not a concern. I was speaking for myself.

Ms. WATERS. I know. But let me tell you why it is important to place it in the record. As we struggle with these issues as public policymakers, we have to always educate. Because when people speak about minority institutions, whether we are talking about affirmative action, whatever, people will say, "I support, except..." I support qualified people doing this. I support safety and soundness.

We do, too. It is extremely important to us. We have said it over and over again. And I want everybody to know that is the prevailing thought and thinking in the African-American community, particularly with minority institutions. They know that they have to comply with safety and soundness laws, and they do. And we support that.

Chairman WATT. Now that we got that out of the way, we could go on and on here. But we have to close this out. I do want to make sure that I get on the record a specific response about the coverage of Section 308 of FIRREA. This applies currently to the FDIC and the OTS. It does not apply specifically, although you all say you seem to be supporting the spirit of it, to the OCC and the Fed.

Mr. Walsh, I think, covered in his testimony that he has no objection to 308 being applied to FIRREA—of FIRREA being applied to your agency. What about the Fed?

Ms. BRAUNSTEIN. Yes. In my written testimony, I state that we would not object if we were covered.

Chairman WATT. That is less than a ringing endorsement. But should I—

Ms. BRAUNSTEIN. Well, we feel that we are in compliance with the spirit of the law. And if Congress chooses to put us under the law, we would not object to that.

Chairman WATT. And what about an annual reporting requirement of efforts to implement Section 308? There is no written requirement now that any of you report to Congress.

Mr. SCOTT. Except for the OTS.

Chairman WATT. Oh, is there? Okay. The OTS reports to Congress. What about applying that to all four of the regulators here?

Ms. THOMPSON. Well, the FDIC has an annual report that we issue, and we do include our activities on minority institutions. But we would not object to a separate annual report to Congress.

Chairman WATT. The Fed?

Ms. BRAUNSTEIN. We would not object.

Mr. WALSH. Likewise. We include that information in our annual report at present.

Chairman WATT. All right. Unless you all want to go another round—I mean, I will be right here. But in the absence of that, the Chair notes that some members may have additional questions for this panel which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and to place their responses in the record.

So I want to thank the witnesses for being here. I think it has been a constructive and helpful hearing. We hope to hear back from you all on some of the things that have come up today in the verbal questions. And of course, we would love to hear back from you in response to any written questions that get submitted.

We thank you all so much for being here, and with that, the hearing is adjourned.

[Whereupon, at 1:20 p.m., the hearing was adjourned.]

# A P P E N D I X

October 30, 2007

# OPENING STATEMENT OF CHAIRMAN MELVIN L. WATT

## "PRESERVING AND EXPANDING MINORITY BANKS"

**October 30, 2007**

Minority and women-owned banks serve an important, but often overlooked, role in the U.S. economy. For too long in this nation's history, women and racial and ethnic minorities were shut out of this nation's banking system. Minority and women-owned banks stepped into the breach and today provide critical banking services and financial products to distressed or traditionally underserved communities throughout the United States.

Today's hearing is designed to highlight the role of minority and women-owned banks in the economy and to examine how federal regulators and Congress can work together to support these important financial institutions. The Federal Deposit Insurance Corporation (FDIC) and the Office of Thrift Supervision (OTS) are charged under Section 308 of the Financial Institutions Reform Recovery and Enforcement Act of 1989 (FIRREA) to "preserve and promote" minority banks. This includes preserving the number of minority banks, preserving these institutions' minority character in mergers and acquisitions, and providing technical assistance to the institutions.

**In 1993, the GAO issued a report entitled, "Minority-Owned Financial Institutions: Status of Federal Efforts to Preserve Minority Ownership." The report found that while the federal banking regulators had taken some steps to preserve minority ownership, they had not assessed whether these steps were effective. The GAO, therefore, recommended that the Secretary of the Treasury consult with the FDIC and OTS to systematically assess the effectiveness of their minority bank support efforts, including surveying minority institutions to gain their insight.**

**Thirteen years later, unfortunately, the regulators still have not implemented the major recommendations from the 1993 GAO report.** The October 2006 GAO report entitled, "MINORITY BANKS: Regulators Need to Better Assess Effectiveness of Support Efforts," might just as well have been a reprint of the 1993 report. The report again examined federal regulators' efforts to comply with Section 308 of FIRREA to preserve and promote minority banks and raised many of the same issues raised in 1993.

This hearing will expose and shed light on the key findings, **ask why regulators still have not implemented the 1993 GAO recommendations**, and focus attention on what more can and must be done to preserve, support and expand these banks. **I'd like to insert both the 1993 and 2006 GAO reports into the record.**

The 2006 GAO report suggests mixed results by the federal government in supporting minority banks. On one hand, some federal banking regulators have developed initiatives, training and outreach events for minority banks. For example, the FDIC and OTS apparently have national and regional coordinators to interface with minority banks and to provide technical assistance. On the other hand, the GAO report indicated that neither the OCC nor the Federal Reserve have developed specific minority bank initiatives. While neither of these regulators is covered under Section 308 of FIRREA, both the OCC and Federal Reserve have issued policy statements in the last several years expressing support for minority banks and both have indicated that they plan to develop programs and initiatives to support and advance these policy statements. We'd like to hear about the OCC and Federal Reserve's progress in fulfilling the rhetorical objectives set out in their policy statements. **Apparently, the Federal**

**Reserve has stated that they will merely "consider" implementing GAO recommendations; we'd like to find out whether the Federal Reserve will indeed implement the GAO recommendations, or alternatively, whether the Fed might prefer to be directed to do so by being included under Section 308 of FIRREA.**

The GAO report suggests that many minority banks operate in unique environments (often serving distressed and underserved areas) and, consequently, must retain higher reserves for loan losses and have higher overhead costs because they spend more time training their staffs and provide extensive customer service. Yet the GAO report also revealed that less than 30% of minority banks actually utilize the technical assistance offered by the federal regulators. We want to explore why that is so. The GAO reported that several minority bank officials suggested that federal regulators should consider undergoing additional training to gain sensitivity to the unique challenges faced by minority banks. I'd like to hear more about these challenges and what would be appropriate to respond to them.

We must remain vigilant to fulfill Section 308's mandate to preserve and promote minority banks. I look forward to hearing from federal regulators and minority-owned banks about best practices for preserving and expanding this important segment of the financial services industry.

For release on delivery
10:00 a.m. EDT
October 30, 2007

Sandra F. Braunstein

Director, Division of Consumer and Community Affairs

Board of Governors of the Federal Reserve System

before the

Subcommittee on Oversight and Investigations

Committee on Financial Services

U.S. House of Representatives

October 30, 2007

Chairman Watt, Ranking Member Miller, and members of the Subcommittee, I appreciate this opportunity to discuss the Federal Reserve's work in support of minority-owned depository institutions. I serve as the Director of the Federal Reserve Board's Division of Consumer and Community Affairs. The Federal Reserve recognizes the important role that minority-owned banks play in the financial services market through the services they provide to their communities. In my testimony, I will focus primarily on a new program we have developed that builds on our long-standing commitment to minority-owned depository institutions and discuss our ongoing initiatives to benefit these institutions.

**Federal Reserve System's Minority-Owned Institutions (MOI) Program**

Nationally, there are about 200 minority-owned depository institutions serving a broad range of communities and populations. Many of these institutions provide access to credit and financial services in markets that have historically been underserved and as a group they play a unique and important role that extends beyond their particular markets. The Federal Reserve System supervises nineteen minority-owned state banks that are geographically dispersed across eight of the System's twelve districts.[1] They are diverse in terms of their minority ownership (e.g., African American, Native American, Asian, and Hispanic) and the markets they serve. Some are quite profitable and operate in higher-income markets, while others serve lower-income communities and, in some cases, struggle to achieve earnings commensurate with their peers. Their challenges are similar to those faced by many other banks--controlling overhead expenses, difficulty in retaining qualified management, and meeting competition from larger institutions in their markets.

[1] The state member minority-owned banks are in the Federal Reserve Districts of New York, Philadelphia, Richmond, Atlanta, Chicago, Kansas City, Dallas, and San Francisco.

The Federal Reserve is committed to the provision of financial services to all consumers and communities. One of the many ways we achieve this goal is by promoting the safety and soundness of all the institutions we supervise, including those that are minority owned. Through our regulatory, supervisory, and community development functions, we consistently provide assistance that addresses the unique challenges and needs of minority-owned banks, while at the same time holding these institutions to the same supervisory standards that we apply to all state member banks. We view this strategy as integral to our efforts to promote a safe, sound, and competitive banking system that also protects consumer interests.

To enhance our support of minority-owned institutions, the Federal Reserve has been developing an innovative and comprehensive training and technical assistance program for minority-owned depository institutions. This program, which we expect to be fully operational in 2008, reflects our own experience with addressing the needs of these institutions, as well as the insights in the 2006 report on minority banks issued by the Government Accountability Office.

In developing its program, Federal Reserve staff from across the System met with a number of minority-owned and de novo banking organizations across the country, as well as trade groups, bank consultants, the Conference of State Bank Supervisors, and other state and federal banking agencies, to learn about the challenges institutions confront in raising capital, growing, and attracting talent. These meetings provided valuable information about the special needs of minority-owned banks and also enhanced our understanding of the various issues that new and smaller institutions face. The resulting program includes training and technical assistance to address the unique needs of minority-owned institutions. To provide broad access to the program, the Federal Reserve will make all aspects of the training program available through classroom-style workshops, self-paced PC-based programs, and a web-based resource and information center. Elements of the program such as guidance for accessing capital, organizing boards of directors, regulatory expectations, and selecting vendors are applicable for non-minority de novo and community banks, and will be marketed to them as well.

The training program consists of three modules that focus on issues that are most relevant at a particular point in a bank's life cycle. The modules have value for potential entrants to the industry as well as those that have been in the market for many years. They draw on data and experiences from experts in the fields of economics, accounting, finance, and compliance, and focus on the particular challenges of establishing and sustaining robust and vibrant minority-owned depository institutions.

The first module, "Getting Started," addresses the steps involved in filing an application and other issues related to obtaining a bank charter, such as raising capital, assembling a successful board of directors and management team, and conducting market analyses. The second module, "Managing Transition in Years 1 - 5," targets institutions that need to manage growth and other transitions during the first five years of their existence. Training at this stage focuses on the institution's need to stabilize operations in a competitive environment and addresses issues essential to sustainability, such as maintaining capital and liquidity, managing credit and interest rate risk, ensuring compliance with banking laws and regulations, and developing new products. The third module, "Growing Shareholder Value," as its name implies, focuses on growing the institution and shareholder value. Participants in this portion of the training will learn more about how to achieve growth in a safe and sound manner, how to measure the performance of the board of directors and management team, and how to expand their market presence.

Given that our minority-owned institutions are geographically dispersed and serve different types of communities, a great deal of flexibility is being built into the curriculum so that modules can be tailored to address institution-specific concerns or issues. In addition, each module features a section on supervisory and regulatory relations, aimed at building and reinforcing a strong dialogue between minority-owned banks and their regulators. To ensure that the program provides a consistent message while remaining responsive to the needs of its audience, the program includes uniform instructor training, individual coaching, and a way to obtain continuous feedback on the usefulness of course materials. The Federal Reserve is committed to respond to changes in the training needs of minority institutions by reviewing and adapting the curriculum as needed.

An important benefit of the program is the impact we expect it will have on the Federal Reserve's supervision of these banks. Concepts underpinning the MOI training program are being incorporated into our examiner education curricula to provide staff with a deeper understanding of the issues unique to minority-owned depositories. This training responds directly to the comments expressed by bankers in our outreach and development phase of the program who indicated that it was important to improve the supervisory agencies' understanding of their business models and strategies. At the same time, they indicated it was important to hold minority-owned institutions to the same supervisory standards as other depository institutions.

The pilot for the program will be launched on November 1, by the Federal Reserve Bank of Philadelphia, starting with a "Growing Shareholder Value" workshop. We expect representatives from six different minority-owned institutions to attend. Three more workshops will be held in selected Federal Reserve Districts by the end of January, along with the roll-out of some web-based training. During the pilot period and after the full program begins in early

2008, the Federal Reserve will continue to work with the industry and interagency partners to identify ways to increase the training's value to minority-owned institutions. This new and innovative initiative underscores our commitment to providing essential information and supervisory support that will enable the banks we supervise to improve their operating efficiency--including reducing costs and regulatory burden--and enhance their ability to serve their communities more effectively.

**Federal Reserve's Ongoing Initiatives**

In addition, the Federal Reserve has had other ongoing efforts that specifically provide support to minority-owned institutions. We joined the other banking agencies in 2006 and 2007 in hosting national conferences for Federally-insured minority-owned institutions. The conferences focused on the challenges these institutions face and the developments that are key to ensuring their long-term success and viability. System staff have also been participating in regional interagency and FDIC-hosted events for minority-owned institutions. These conferences and events have presented a unique opportunity for minority bankers, regulatory officials, and private industry representatives to exchange knowledge and increase awareness of matters affecting minority-owned institutions. We plan to present our new program at the 2008 Interagency National Conference next summer.

Our ongoing commitment is further demonstrated through coaching and mentoring minority-owned banks that have struggled to manage growth while remaining profitable. We have also assisted the institutions through the applications process, including branch acquisitions. Branch acquisitions can provide a minority-owned institution with greater opportunities for growth and profitability. At the same time, sellers of the branches can receive positive consideration under the Community Reinvestment Act (CRA) by contributing the branches to minority-owned institutions.

The Federal Reserve also sponsors numerous outreach events to which minority-owned institutions are routinely invited. Although the events, typically seminars and presentations, may not be specifically designed for minority-owned institutions, they cover an array of supervisory and other topics that are of interest to community bank senior officers and directors, regardless of ownership or affiliation. Innovation related to these outreach activities comes from throughout the Federal Reserve System, particularly since each Reserve Bank has local knowledge about specific concerns within its communities. For example, we have developed a brochure entitled "Delivering Financial Services to Indian Country" in response to routine inquiries from Native American tribes on how to start a Native American-owned financial institution.

On the regulatory front, the banking agencies recently issued for comment a proposed document regarding the Community Reinvestment Act. One of the proposed questions and answers indicates that non-minority-owned banks' investments in minority-owned banks receive favorable consideration under the investment test, even if the minority-owned institution is not located in, and the activities do not benefit, the assessment area(s) of the investing institution.

**Our Response to the GAO's Recommendation**

In your invitation letter, you asked us to discuss the status of the Federal Reserve's consideration of the GAO's recommendations made in its October 2006 report entitled Minority Banks: Regulators Need to Better Assess Effectiveness of Support Efforts, in particular, the GAO's recommendation that the Federal Reserve improve its minority bank outreach.

Since the GAO report was issued, the Federal Reserve has increased its resources dedicated to the support of minority-owned institution. System-wide, nearly thirty people have been actively involved in the development of the MOI program. These resources do not include the Community Affairs and supervisory staff involved in the Federal Reserve's extensive outreach efforts to its supervised institutions.

We believe the actions we have taken since the GAO report was issued, discussed above, are consistent with the recommendations that we improve minority bank outreach. As I noted previously, while developing our new program for minority-owned institutions, the Federal Reserve obtained input from minority-owned institutions through face-to-face interviews and meetings with trade associations and state and federal banking agencies. The banking agencies have also surveyed attendees at the interagency conferences mentioned above. Additionally, we incorporated a mechanism to gain timely and continuous feedback on the effectiveness of our new program and plan to include minority institutions as a special topic at our next senior examiner training forum in the spring of 2008. Through a variety of methods, the Federal Reserve will continue to enhance our understanding of the needs of minority-owned institutions and the effectiveness of our programs.

Finally, your letter asked if the Federal Reserve supports expanding Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA)[2] to include the Federal Reserve. While the Federal Reserve does not believe this is necessary, given our efforts to comply with the spirit of that provision, we certainly have no objection. The Federal Reserve at every level is committed to providing significant assistance and support to the minority institutions it supervises, and that support will expand once our pilot program is perfected and put into general operation.

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[2] Section 308 of FIRREA established goals that the FDIC and the OTS must work toward to preserve and promote minority-owned institutions. The FDIC and OTS, in consultation with Department of Treasury, are required to provide minority banks with technical assistance and training and educational programs and to work toward preserving the character of minority banks in cases involving mergers or acquisitions of these institutions.

**Conclusion**

In closing, I would like to reiterate the Federal Reserve's commitment to promoting vibrant, competitive, and diverse banking markets. We are dedicated to using our roles as supervisors, regulators, community development facilitators, and consumer educators to support the minority-owned institutions and other organizations that contribute to our robust financial services system--and the consumers who are vital to that system's success.

For Release Upon Delivery

10:00 a.m., October 30, 2007

WRITTEN TESTIMONY OF

ROBERT PATRICK COOPER

CHAIRMAN ELECT

NATIONAL BANKERS ASSOCIATION

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT OVERSIGHT AND INVESTIGATIONS

OF THE

COMMITTEE ON FINANCIAL SERVICES

OF THE

U.S. HOUSE OF REPRESENTATIVES

OCTOBER 30, 2007

Chairman Watt, Ranking Member Miller and members of the Subcommittee:

My name is Robert Patrick Cooper and I am providing this testimony on behalf of the National Bankers Association ("NBA") and its national constituency of minority and women-owned banking institutions. Our Association has been *the Voice of Minority Banking since 1927* and our member banks serve mainly distressed communities plagued by severe social and economic challenges. Our members are deeply committed to providing employment opportunities, entrepreneurial capital and economic revitalization in neighborhoods that often have little or no access to alternative financial services. For our member banks, service to their communities, which typically consist of low and moderate-income neighborhoods, is **the** essential reason that they exist.

First of all, we would like to thank you for taking the time to hold this hearing regarding the concerns of minority banks. We are confident you recognize the importance of minority banks in this country, particularly to our inner cities, where they not only provide critical financial services, but as importantly serve as a beacon of hope, to underserved minority residents. These remarks seek to initiate a dialogue with you and your Congressional colleagues to rectify this problem, and thereby avoid further crises for minority banks. This talk also responds to one of your questions, why are minority banks not participating in more training programs. To put it bluntly, we are tired of the banking agencies focusing solely on training and ignoring the more difficult but ultimately more important task of meaningfully addressing the challenges facing minority banks. We can go many places for training, but the regulators thus far steadfastly have refused to focus on the benefits and changes they are uniquely empowered to provide. FIRREA was about more than training – it was a recognition of the unique challenges of minority banks and a promise to rectify them – a promise that thus far has been unfulfilled.

As you are aware, almost two decades ago Congress passed the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA"). In Section 308 of that legislation Congress specifically sought to improve the standing of minority banks. Unfortunately, as I discuss below, FIRREA failed to improve the position of minority banks relative to their peers. Significantly, as is also explained below, one of the factors that has led to the failure of FIRREA to achieve its objectives has been the failure of US bank regulators to recognize and respond to the unique challenges minority banks face in our society.

Having failed to see expected benefits in the 18 years since FIRREA, the NBA strongly believes more forceful Congressional action and oversight is now required. Accordingly, the second half of these remarks detail specific legislative, regulatory, policy, and procedural initiatives we believe critical to at long last improve the position of minority banks in our society. To be clear, we seek more than illusory gains. Your constant vigilance, oversight, and demand of regulatory accountability will be required. But we humbly submit that our inner cities, which truly depend on minority banks for their financial and psychological survival, deserve no less.

I first want to provide some context. The NBA strongly believes that Congress only can truly appreciate the need for decisive action with a thorough understanding of the current situation. As you are aware, although they would be valid, we are not basing our concerns about the financial condition of minority banks merely on informal member surveys. Rather, the data I am providing is largely derived largely from GAO Report 07-6, *Minority Banks-Regulators Need to Better Assess Effectiveness of Support Efforts* (the "GAO Report"). Congress requested the GAO Report to follow up on a 1993 GAO effort, *Minority-Owned Financial Institutions: Status of Federal Efforts to Preserve Minority Ownership* (the "1993 GAO Report").

The assessment of the GAO Report accurately can be described as no less than alarming. As the GAO Report describes, a common gauge of bank profitability and peer performance is return on assets ("ROA").[1] A bank generally is considered to have adequate profitability if it has an ROA of at least one percent.[2] As the GAO Report details, minority banks with in excess of $100 million of assets generally (with the exception of African-American banks, which are worse) met this threshold, and were close to, although generally somewhat less profitable than, their majority peers.[3]

The tale is much darker, however, as to the 42 percent[4] of minority banks that had less than $100 million of assets. The average ROA of these banks was just 0.4 percent, and their peers had an average ROA of 1 percent.[5] Focusing more narrowly on African-American banks, which as you know are at the very heart of many large US cities, the situation is even worse. For example, African-American banks with assets of less than $100 million, which comprise 61 percent of all such banks, had an average ROA of 0.16 percent, compared to an ROA of 1 percent for their peers. At $100 million to $300 million, which comprise 26 percent of all such banks, the ROA was 75 percent lower than their peers. Even at the highest asset level category for African-American banks, $500 million to $1 billion, the ROA was a third lower than their peer group.[6] Such GAO-generated indices, both as to minority banks as a whole and African-American banks in particular, demonstrate the need for urgent action. Only profitable, strong banks can grow and support the needs of their communities, including inner cities. Indeed, it is indicative of the issues faced by minority institutions that it was not until 1998, when the institution at which I serve as Senior Counsel, OneUnited Bank, established operations in Florida by acquisition of a failed institution, that a minority bank engaged in an interstate acquisition.

[1] GAO Report, p. 4.

[2] *Id.* at 11, 12.

[3] *Id.* at 13.

[4] *Id.* at 11. Indeed, we believe this 42% figure is understated. The regulators recently have expanded the definition of "minority bank" (*e.g.*, there no longer is the Congressionally mandated requirement that more than 50% of the stock of such banks be owned by minorities) which inappropriately expands the number of minority banks with in excess of $100 million of assets. Nonetheless, to ensure that our analysis of the current plight of minority banks is beyond question, for purposes of this analysis we will use the GAO Report's figures. As is discussed in this section, those figures are more than disturbing enough to warrant the action requested.

[5] *Id.* at 12.

[6] *Id.* at 15.

The GAO Report further lists some of the reasons for these discrepancies. African-American banks, in particular, incurred significantly higher loan loss reserves as a percentage of ROA than their peers, almost twice the average for African-American banks with less than $100 million of assets.[7] Moreover, the GAO Report also cites higher operating expenses as a reason for minority banks having lower average ROA than their peers, which officials from such banks attributed to "costs associated with providing banking services in low-income urban areas or communities with high immigrant populations," as well as smaller customer deposits and more focus on in-person service.[8] In addition, minority banks cited majority banks and nonbank entities as increasingly posing challenges to their market positions. More generally, as recognized by the Vice Chairman Gruenberg of the Federal Deposit Insurance Corporation ("FDIC") in an August 2, 2006 speech, given their locations and target demographic minority banks face "unique challenges" in promoting their mission.[9]

If any material subset of the US banking industry faces significant difficulties, Congress appropriately takes action to ensure the public retains its confidence in the safety and soundness of the banking system. In the case of minority banks, the social ramifications of continued financial difficulties are much more compelling. Simply put, minority banks often are the lifeblood of their communities. In a 2000 speech, the then Chairman of the FDIC, Donna Tanoue, well described the symbiotic relationship between a minority bank and its community, and the affect on the community of that relationship being severed:

> Minority banks generally have close ties to communities that have been traditionally under-served by other financial institutions – communities that are primarily urban and in our nation's largest cities – communities that are often poor and struggling to enter the economic mainstream. When a minority bank fails, neighborhoods lose, families lose, people lose. They lose the funding – and the services – that minority bankers provide-sometimes where no one else will.[10]

Moreover, the first page of the GAO Report (which, again, was published in 2006) highlights that the vital role of minority banks continues today, providing that "[d]espite their small numbers, minority banks can play an important role in serving the financial needs of historically underserved communities, such as African-Americans, and growing populations of minorities, such as Hispanic-Americans and Asian-Americans."[11]

[7] *Id.* at 16, 17.

[8] *Id.* at 18, 19,

[9] Opening Remarks of Vice Chairman Martin J. Gruenberg, Minority Depository Institutions National Conference, Miami Beach, Florida, Aug. 2, 2006 ("Gruenberg Speech").

[10] Remarks by Donna Tanoue, Chairman, FDIC, Before the National Bankers Association, Chicago, Illinois, October 4, 2000 ("Tanoue Speech"). Similarly, when one of our member banks, OneUnited Bank, acquired Family Savings Bank in California in 2002, then California Governor Gray Davis welcomed the bank by declaring "Minority banks traditionally make loans in areas where other banks do not, thereby investing critical money for neighborhoods that need it most. This welcome merger will help many African-American residents realize their dreams, whether it is buying their own home or building a small business." "Merger agreement creates nation's largest Black-owned bank," The Birmingham Times, Aug. 8, 2002, at A4-5.

[11] GAO Report, at 1.

In sum, Congress must act to fundamentally change the dynamic minority banks face. Their unique mission, target demographic and challenges have caused them to fall behind the profitability of their peer groups. As FDIC Vice Chairman Gruenberg has recognized, because their target market often can adversely affect their asset quality, earnings and capital performance "[m]inority banks more often have to evaluate the need to inject additional capital or face merger with another institution in order to ensure continued business expansion and survival in a highly competitive marketplace."[12] Without minority banks, our inner cities will suffer tremendous hardship. Such a set of circumstances demands that the entities charged with principally overseeing the minority banks, the US bank regulatory agencies, affirmatively act to help these banks meet these challenges. Unfortunately, as I will now discuss, despite a Congressional mandate, that has not occurred.

To put it simply, regulatory response to this crises have fallen far short of Congressional mandates, Recognizing this importance of minority banks, both to the banking system and their communities, in 1989 Congress enacted Section 308 of FIRREA. Section 308 directed the FDIC and the Office of Thrift Supervision ("OTS") to pursue the following five goals: (1) Preserve the present number of minority institutions; (2) Preserve their minority character in cases involving merger or acquisition of a minority depository institution by using general preference guidelines; (3) Provide technical assistance to prevent insolvency of institutions not now insolvent; (4) Promote and encourage creation of new minority depository institutions; and (5) Provide for training, technical assistance, and educational programs.

As the GAO Report discusses, and as all four banking agencies extensively advertise, the agencies have implemented certain training and technical assistance programs. The agencies have created Web pages, directed and participated in seminars, and the FDIC, OTS and Office of the Comptroller of the Currency ("OCC") have published policy statements about their efforts in this regard. The GAO Report even cites agency assertions about assistance in helping minorities to obtain deposit insurance and thrift charters, and, if a minority bank falls into troubled condition "officials from the OCC, Federal Reserve, and OTS said that they provided technical assistance to such institutions."[13]

The NBA certainly appreciates the banking agencies' information and offers of technical assistance. However, we submit that the discussion above about the state of minority banking provides conclusive evidence that the agencies have not proactively, materially helped to preserve, not to mention promote, minority banking. As with any for profit business, survival, let alone expansion, will remain an issue for minority banks so long as their profitability is a mere fraction of their majority bank peers.

Fortunately, the GAO Report also appropriately focuses on the shortcomings of the banking agencies' efforts. Despite the clear Congressional intent and mandate of FIRREA, and despite the recommendations of the 1993 GAO Report, "none of the regulators have routinely and comprehensively surveyed their minority banks on all issues affecting the institutions, nor have the regulators established outcome-oriented performance measures," with the GAO then describing such performance measures as "vitally important in order to manage programs successfully and improve program results."[14] We understand and appreciate that the FRB is

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12 Gruenberg Speech.

13 GAO Report, at 26, 27.

14 *Id.* at 27.

rolling out a program designed to begin a dialogue with minority banks, the Minority Owned Institutions Program. However, we submit that these efforts are too little and too late. Eighteen years after FIRREA, the banking agencies still do not understand the challenges of their minority bank membership, and have no system to determine if their efforts are at all useful to the banks, and are not taking the strong affirmative steps necessary given the status of the minority community. As just one ramification of this shortcoming, the GAO cited that "both our 1993 report and our current analysis found that some minority banks believe that regulators have not ensured that examiners fully understand that challenges that such institutions often face in, for example, providing financial services in areas with high concentrations of poverty or to immigrant communities."[15]

The GAO Report concludes by recommending that all thc bank regulatory agencies (not just the FDIC and OTS, which were expressly covered by Section 308 of FIRREA), regularly review the effectiveness of their support efforts, conduct periodic surveys (such as the one the FRB is now contemplating) to determine how the minority banks view those efforts, and develop outcome-oriented performance measures to determine whether they are meeting the needs of those institutions.[16] We applaud the GAO's recommendations. Still, given that it has been 18 years since FIRREA, and 15 years since similar recommendations in the 1993 GAO Report, given the current financial state of minority banking we do not feel it sufficient to continue to await stronger action by the agencies.

Stated bluntly, the regulators have largely complied with the relatively clear, straightforward, easy to implement FIRREA mandates regarding training and technical assistance. However, as two GAO reports on the topic and the financial data provided earlier conclusively demonstrate, the agencies still largely have not undertaken the more difficult and time-consuming, but ultimately much more important, task of truly understanding the unique challenges these institutions face and, even more importantly, tailoring their regulations, supervision and examinations so as to permit them to attain the profitability and operating efficiencies necessary to survive and prosper. Indeed, an August 2007 given speech by FRB Chairman Kroszner where he incorrectly states that minority banks want to be regulated just like majority banks, we see no reason why the latest GAO cajoling will do any more to change that regulatory behavior than previous Congressional and GAO efforts.

As a result, for the compelling reasons discussed above, we are well beyond the point where nebulous promises of future assistance are sufficient. Rather, the NBA is requesting specific, prompt, forceful action at the legislative, regulatory, policy, and procedural level to change the environment in which minority banks operate. We would very much appreciate this Committee leading this effort, and forcing the banking agencies to appear before you in formal hearings, in which we also can participate, on no less than an annual basis to explain their performance on the "outcome-oriented" basis recommended by the GAO. As a roadmap of certain objectives, we suggest the following:

On the legislative front, although well-intentioned, as demonstrated above FIRREA Section 308 clearly has not served its overriding purpose—the promotion of minority banking. To be honest, we have not seen much benefit for FIRREA Section 308. In virtually all cases, while the

[15] *Id.* at 40.

[16] *Id.*

regulators recognize FIRREA Section 308 exists, they generally do not apply any different rules or approaches to minority institutions than majority institutions.

As is demonstrated, with Basel II, for example, the regulators clearly are able to make distinctions between banks based on asset-size or perceived sophistication. However, despite differentiation between banks on other bases (*i.e.*, asset size, risk management sophistication) they either do not feel authorized (or compelled) to make such a distinction based on minority status.

To remove any doubt of Congressional intent that the agencies take decisive actions on this issue, we believe a more direct mandate is necessary. More specifically, we would ask that Congress amend FIRREA to expressly make it apply to all four federal banking agencies (so that the Federal Reserve cannot merely "consider" the GAO Report's recommendations, as FRB Chairman Kroszner stated the FRB would do as recently as August 2007) and add the following new subsection to Section 308:

> "(c) Implementation of Goals--In implementing these goals, the unique nature, role and challenges of minority depository institutions in the banking system shall be recognized. Without limiting the foregoing, minority depository institutions shall be entitled to treatment concerning capital, the Community Reinvestment Act, and mergers and acquisitions, that reflects this unique status. The federal banking agencies shall promulgate regulations, policies, and examination procedures consistent with and in furtherance of this provision, and shall appear before Congress annually to Congress to show their actions in furtherance of this provision, and the outcome of such actions on the financial condition and general well-being of minority banks."

We strongly believe that such a statute, with its language tailored to areas of specific importance to minority banks and to federal banking agency accountability, will place minority banks in the best position to achieve appropriate changes currently (many of which I will discuss shortly), and to cause appropriate changes to be made in the future without the need for a third GAO report on the regulatory deficiencies in understanding or addressing the needs of minority banks. As fundamentally, we believe that even the act of passing such a statute would send a clear signal to the banking agencies that Congress, who ultimately establishes the rules by which the regulatory agencies must abide, does not find their historical or current efforts satisfactory.

To emphasize, however, while we believe amending FIRREA important, unto itself it is far from sufficient. Our fundamental dissatisfaction is not with Congress. Whereas the federal legislature only has limited time and resources to address this important matter, the federal banking agencies regulate, oversee, examine, and, we would argue, debilitate our efforts on a day-to-day basis. As stated throughout this speech, while the agencies arguably have complied with the express requirement in FIRREA to provide technical training, for over 18 years, and despite GAO warnings as early as 1993, they have not done the more rigorous but important work of understanding what particular challenges face minority banks and, as importantly, pro-actively responding to alleviate those challenges in an outcome-oriented manner. Unless Congress demands ongoing, public accountability (as the suggested FIRREA amendment does), history informs us that no legislative authorization will spur them into the type of affirmative action and differentiation required.

To be clear, we understand that regulators appropriately have concerns about maintaining the safety and soundness of the banking system. However, safety and soundness also needs to take into consideration economic realities. We submit, and believe that the GAO Report has confirmed, that the bank regulators have erred on the side of abstract, rigid safety and soundness principles rather than appropriately tailoring their requirements to the challenges of the minority banking communities. Indeed, as the anemic ROA figures discussed above demonstrate, applying basically the same rules to an inner city minority bank as to Bank of America can be as deleterious to the health of the minority institution as virtually any harm the rules were intended to prevent.

As with Congress and Section 308 of FIRREA, in addition to a general "call to action", we wanted to provide some specific areas that the banking agencies can target to begin to improve the standing of minority banks. To emphasize, however, these are certain issues we are aware of today. Only the constant vigilance of Congress, and a fundamental change in the mindset of the agencies, can ensure that minority banks also are treated appropriately when the different issues of tomorrow inevitably occur. We hope that the examples provided below also more generally inform the regulatory approach to current and future issues.

First, the current capital rules are not designed to address the particular experience of minority banking institutions, and thereby to enable them to become prominent (by asset size, as well as role) members of the financial services marketplace. More specifically, the federal capital rules broadly state that voting common stock should be the predominant form of capital for <u>any</u> bank. By taking this general, inflexible approach the current rules thus do not take into account the type of bank involved, or the types of shareholders that own the bank's stock. The federal bank regulators, in turn, consider it an unsafe and unsound practice not to satisfy this blanket requirement.

By their nature, minority banks tend to have a relatively high percentage of preferred stockholders. These preferred stockholders generally consist of large, prominent nonbank institutions, such as insurance companies, oil companies and media giants, that are long-term, stable sources of capital. These investors expressly seek nonvoting preferred stock (rather than typical voting common stock) so that they can invest long-term in minority banks without becoming subject to the significant capital and/or regulatory burdens associated with becoming a bank or thrift holding company. In short, these are highly desirable investors, and nonvoting preferred stock provides a means for them to invest in our business.

In addition, it should be noted that the avenue of raising capital most commonly used by majority banks, broad public offerings of common stock, is not practically available to minority banks. The general concern is that by raising such funds the shareholder base of the bank will change in a way adverse to its status and role as a minority bank. Stated differently, if a minority bank undergoes a public offering of common stock, it seriously risks, either by virtue of the offering itself or secondary trading thereafter, losing its controlling minority stockholders. Thus, institutional preferred stockholders provide the only effective means for a minority bank not to be faced with a choice of not raising capital or not having the type of shareholder base (minority controlled) that defines it as a minority bank.

Because of the inflexible capital rule favoring voting common stock described above, however, amazingly the federal bank regulators criticize minority banks for having these institutional preferred stockholders. These criticisms affect our exam ratings, and also hinder our efforts to engage in significant corporate activities, such as mergers. We thus submit, and wish the banking agencies to recognize, that: (1) nonvoting preferred stock held by institutional investors is a stable, safe and sound form of capital; and (2) it would not be an unsafe or unsound banking practice to amend the capital rules to permit minority banks to have a high percentage of capital consisting of such nonvoting preferred stock. As stated above, with Basel II the banking agencies not only are able to differentiate, but in fact are affirmatively promoting a differentiation, of banks based on asset size on international activities. Minority banks, which generally are facing the unique challenges of operating in inner city environments, deserve no less.

As a second specific area for change, despite certain recent, and appreciated, regulatory initiatives, the current CRA rules still do not address the particular environment in which minority banks operate, either with respect to (a) encouraging majority banks to support (through investments, loans, or deposits (collectively, "funding")) in minority banks, or (b) recognizing the credit minority banks should receive for operating in and providing hope to, minority neighborhoods.

As to funding, to raise funds to grow and remain significant players in the financial services marketplace and yet retain their minority status, minority banks need access to funding by other than public means. Minority banks have had significant success attracting investment capital from very desirable nonbank institutional investors. By modifying the CRA framework to make expressly clear that it is wholly consistent with the purposes of CRA for a majority bank to provide funding to minority banks (which also are often Community Development Financial Institutions, or "CDFIs"), and thus majority banks will receive CRA credit for such funding, minority banks also can materially increase the funding they receive from <u>bank</u> institutional investors.

It is hard to conceive of a majority bank more deserving of CRA credit than one that supports an institution (*i.e.*, a minority bank or CDFI) dedicated to improving (through employment, loans and other financial services, and frankly, hope) the lives of urban inner city residents. Indeed, we should highlight that in Interagency Questions and Answers (the "Q&A") regarding CRA published in the Federal Register in July, 2001 expressly include "minority-and women-owned financial institutions" and CDFIs within the CRA regulation's definition of "qualified investment" and "community development loan." As a result, majority banks should in fact receive CRA credit for providing funding to minority banks or CDFIs.

Nevertheless, we strongly believe that the banking agencies should amend their CRA regulations to more expressly grant CRA credit to majority banks for providing funding to minority banks and CDFIs. Such a recommendation, if implemented, would have several benefits in attracting majority bank funding. First, unlike the Q&A, which is at most a statement of position, the majority banks would recognize that a regulation has the force of law. Perhaps even more fundamentally, a regulation is much more quickly and easily recognized and understood by majority bank counsel, which is critical to minority banks in getting the attention, and thus the funding, of these very busy institutions.

As to the CRA credit minority banks receive for their activities, the CRA focuses very heavily on lending into low-and-moderate income neighborhoods, and provides very little relative credit for actually operating a physical branch presence in urban and minority neighborhoods. Absurdly, from a CRA perspective, a minority bank would be much better off deploying its capital to lend into an urban community rather than to maintain a branch presence there to serve as a beacon of hope to inner city residents.

Given the mission of minority banks, the current CRA approach obviously is inappropriate. We thus are asking the banking agencies to develop a different standard for minority banks. Nothing can more truly support the spirit of CRA than to maintain operations in these neighborhoods and we want to be certain that the CRA rating for those activities is no less than for a lending program.

As a third specific area for change, although not having the force of law or regulation, policy statements issued by the banking agencies tend to address more sweeping topics of current relevance to the industry. Over the past year alone, for example, there have been much-discussed proposed and final policy statements regarding commercial real estate lending, as well as nontraditional and subprime mortgage lending. As you are probably well aware, these policy statements all, to a greater or lesser extent, heighten regulatory scrutiny of the relevant activity, and announce the expectation of enhanced information gathering and risk management procedures, as well as capital, to engage in the activity.

As you might imagine, given the commercial and low-income nature of the communities they generally serve, and their struggle to raise assets generally, minority banks are particularly vulnerable to criticism as engaging to a significant degree in one of the lending practices discussed in the policy statements. Indeed, for many minority institutions, the asset classes described in those policy statements comprise a significant percentage of their available lending market. However, rather than separately focusing on the particular challenges faced by minority institutions, the policy statements speak in broad, untailored terms. As a result, minority banks face the prospect of examinations, and criticisms, that are not appropriate given their role in the financial services industry.

For example, the policy statement on commercial real estate generally creates thresholds for construction loans (100% of capital) and multi-family and other loans (300% of capital, with certain growth factors). Because of the nature of their inner city services, many minority banks are likely to exceed these thresholds. As a result, under the policy statement they will be examined for enhanced risk management practices and, quite likely, additional capital to support that activity. In other words, in order to serve their target market the minority banks are quite likely to become subject to a policy statement that is not at all oriented toward their circumstances, and will inhibit their ability to fulfill their mission of promoting minority enterprises. We are aware of and appreciate the public statements you have made, Chairman Frank, against the limitations on multi-family housing in particular.

We would suggest that Congress discuss with the banking agencies two distinct but related steps to address this problem. First, at least partially tailor all the policy statements that are outstanding to date, we would suggest that each banking agency create a blanket policy addressing minority banks, or amend their existing policies, to expressly provide that the regulators and examiners will thoughtfully apply any existing policies to the unique circumstances of minority institutions. On a going forward basis, we would further suggest that each time the regulators propose a policy statement, they strongly consider whether minority banks should be separately addressed in the statement, and expressly discuss their reasoning and conclusion in this regard in the preamble to the proposed policy. Such a procedural step will compel meaningful thought on the matter, and also make the conclusion available for public review and comment.

More generally as to the GAO Report, the NBA cannot consider and list every action that the banking agencies should take to fulfill the Congressional mandate and improve the conditions of minority banks. Particularly understanding the watchful eye of Congress, we are hopeful that the foregoing will prompt independent creative thought by the agencies, as to approaches to achieve this objective. For example, the agencies could write into their CRA exam guidelines for majority banks specific questions about what, if anything, those banks are doing to provide financial or other support to minority banks. Understanding the importance of reputation and regulatory relations to majority banks, the agencies could periodically publish and applaud particularly beneficial acts that majority banks take on behalf of minority institutions. More generally, in addressing non-bank members of the financial services community, and even non-financial services companies, in speeches and otherwise, the regulators could more often highlight the importance of minority banks to the cities in which many of these companies operate, and the specific and general benefits that will redound to them and their community by assisting these institutions.

Finally, since the Committee asked us to discuss any initiatives that would support minority banks, I would like to mention one unrelated to the GAO Report. Many of the NBA member banks, including OneUnited, are also certified by the U.S. Department of Treasury as CDFIs. The CDFI Fund, created in 1994, is a government agency that provides funding to individual CDFIs and their partners through a competitive application process. Specifically, there are several programs administered by the Fund that were actually designed to provide critical capital and additional revenue streams to financial entities that operate in low to moderate income communities: two such programs are: (1) The Bank Enterprise Award (BEA) and (2) the New Markets Tax Credits ("NMTC").

The BEA program provided $11.6 million in awards in 2007. The White House is on record for discontinuing the program. The NBA successfully lobbied Congress to increase funding for CDFI to $100 million of which BEA would be allocated a third of that appropriation in 2008. We wish to publicly re-affirm our support of this important initiative.

The Fund also awarded $3.9 billion in NMTC in 2007, but only one minority bank received a small NMTC award. This program could provide a significant benefit to minority banks and the communities they serve. Currently, large and money centered banks receive the majority of the benefits.

NBA would like to see these programs work for minority and women owned banks and specifically have the CDFI Fund provide a priority ranking for CDFIs, minority and women owned banks as a part of the application process. We submit such a priority is appropriate given that the Fund is designed to promote low and moderate income communities – exactly the communities served by our members.

However, I do not want to further distract the Committee from the appropriate focus of this hearing – the GAO Report. As to that issue, in conclusion, (1) there is a problem in the minority banking community; (2) there is much to be done to address that problem; and (3) the minority banks need the assistance of Congress, both with respect to legislation and regulatory monitoring, oversight and accountability, for our needs to be addressed. This will not be easy. It requires more than training. However, given strong correlation between minority banks and the financial and psychological health of inner city residents, we believe the choice is quite clear. Congress can either assume this responsibility, and thereby seek to ensure a vibrant future for minority banks and the communities they serve. Or it cannot, and watch as minority banks slowly but surely fade along with the demographic areas they support.

We again appreciate your attention to this important matter, and look forward to working with you, and the regulators, toward a solution.

I will be pleased to answer any questions that you may have.

*Testimony of*

Kim D. Saunders

On Behalf of

Mechanics and Farmers Bank

*Before the*

Committee on Financial Services

Subcommittee on Oversight and Investigations

United States House of Representatives

October 30, 2007

M&F

MECHANICS AND FARMERS BANK

Testimony of Kim D. Saunders
President and CEO, M&F Bancorp, Inc. and Mechanics and Farmers Bank
on behalf of
Mechanics and Farmers Bank
before the
Committee on Financial Services
Subcommittee on Oversight and Investigations
United States House of Representatives

October 30, 2007

**Executive Summary**

In August 2006, the Federal Deposit Insurance Corporation's (FDIC) Vice Chairman Martin J. Gruenberg identified some of the challenges to minority banks' operating in a highly profitable manner: (a) the relatively higher cost of doing business in communities with incomes below market average, (b) high immigrant populations, (c) a smaller deposit base, and (d) a preference for in-person service.

To assist minority banks in addressing these unique challenges, as well as facilitating capital investments in these institutions, I recommend the Committee on Financial Services consider legislation (a) to ensure that bank regulators provide the necessary notification regarding the array of technical assistance services that are available and (b) to amend regulatory peer group benchmarking and examination evaluations to recognize the differences between minority banks and UBPR-designated peer groups. Finally, although I recognize that federal tax legislation is outside the purview of this committee, the ability of minority banks to raise capital would be enhanced if the CDFI Fund guidelines were modified to allow tax credits for investments in these institutions.

Mr. Chairman and other distinguished members of the Committee; my name is Kim D. Saunders. I am President and CEO of M&F Bancorp, Inc., and Mechanics and Farmers Bank. M&F is a $223 million community bank that conducts business in four of North Carolina's largest markets. The Bank is celebrating its 100th anniversary throughout 2007 and 2008, and our parent company currently is anticipating approval of a merger agreement that should elevate Mechanics and Farmers Bank into the top five largest African-American owned banks in the United States.

On behalf of the Boards of Directors of M&F Bancorp, Inc. and Mechanics and Farmers Bank, I am honored to provide you with comments on this very important subject of "Preserving and Expanding Minority Banks". Even as we look forward to realizing incremental growth through the consummation of our first merger since 1921, we recognize that the business environment in which we operate is becoming more challenging on every front.

In the face of all the economic issues affecting the banking industry that we see daily in the media, and that this committee has heard about numerous times in the past months, the pressure on the ability of community banks and minority-owned financial institutions to operate profitably may be even more intense than on the rest of the industry.

The Government Accountability Office rightly observes in its October 2006 report on Minority Banks that "minority banks can play an important role in serving the financial needs of historically underserved communities and growing populations of minorities." Because this is true, this hearing today and any resulting actions will resonate far beyond these chambers, and I thank the Committee for giving time to these matters.

M&F's own mission and track record bear out the truth of the GAO's assessment of the role of minority banks. 100 years ago this year, Mechanics and Farmers Bank was founded out of the need for African-Americans in Durham, North Carolina to have a safe and secure place to deposit and earn interest on their savings, to have access to financing for their businesses and homes, and to build wealth for their families and their communities.

Today, we are a full-service commercial bank offering a wide range of consumer and commercial depository and loan products, as well as online banking, bill payment and cash management. We are among a select few banks in North Carolina designated as a Community Development Financial Institution, and have twice been recipients of Bank Enterprise Awards through the CDFI Fund of the United States Treasury, based largely upon our financing activities in economically distressed communities and for our commitment to promoting proficiency in personal financial management in our markets.

As we have been since our inception, we are committed to reinvesting our resources, both human and financial, into the communities where we live and do business. Our Board, management and staff are dedicated to our modeling a "best-practices" based organization that delivers a double bottom-line return, in that we are committed to doing well by doing good. We're proud and privileged that, throughout our footprint, customers readily step forward to share their views on the impact that M&F Bank has had on their businesses, their communities, and on their own or their families' wellbeing. They consistently express pride in our success, in our sustained presence in their neighborhoods and our continued support of their concerns.

The story of M&F Bank is a microcosm, a case study, of the essential role that minority banks play. Our story illustrates the reasons that it is imperative that minority banks be preserved, or better yet, strengthened and expanded.

People of color have financial options today that were not available at the turn of the 20th century, however, that does not mean that the playing field is level. The GAO report highlights the disparities in performance and utilization of regulatory agencies' services among minority banks, and yet, we must delve deeper.

Our experience with banking regulators at M&F Bank has generally been positive and productive, facilitated in great part by the fact that we have a number of former bank examiners in senior staff positions. Our Board emphasizes transparency and cooperation with regulatory agencies, and management consistently takes the position that full and proactive disclosure is the best policy in all matters. However, the GAO report points to an extremely low rate of utilization of technical assistance among minority banks, which indicates the existence of other factors influencing the result that are not spoken to in the report.

In considering the goal of assisting regulators in their efforts to support minority banks, I would like to discuss the following areas:

- How utilization of technical assistance among minority banks may be increased
- The effectiveness of banking regulators' efforts to implement suggestions in the GAO report

- Legislative and regulatory steps that should be taken to help preserve and expand minority banks
- The critical role minority financial institutions play in our nation's economy

**Minority bank use of technical assistance would be enhanced by banking regulators being proactive in providing adequate notice regarding the scope and availability of this assistance.**

There is anecdotal evidence at least that minority banks insufficiently use the technical assistance that is available due to the lack of adequate notification regarding this assistance. Banking regulators should correspond at least semi-annually with the CEOs of the minority banks they oversee, to apprise them of the forms of technical assistance that may be available, and to provide the appropriate contact information for future reference. Bank regulators should also utilize this opportunity to determine if other forms of technical assistance and services could be provided which are available and pertinent to the institution. Regulators should be proactive in communicating to minority banks, especially those deemed to be low-performing.

As I stated earlier, our relationship with regulators has been productive on the whole, but I only recently learned that the FDIC has regional coordinators whose responsibilities include annual contact with the minority institutions in their respective region. Institutions are not able to utilize services where notice of these services is inadequate.

**Bank regulators' compliance with FIRREA's goal of preserving and strengthening minority banks has been ineffective.**

I referred earlier to challenges to highly profitable operations faced by minority banks. In August 2006, the Federal Deposit Insurance Corporation's (FDIC) Vice Chairman Martin J. Gruenberg identified some of those challenges: (a) the relatively higher cost of doing business in communities with incomes below market average, (b) high immigrant populations, (c) a smaller deposit base, and (d) a preference for in-person service.

Recognizing these obstacles, a primary goal of FIRREA was to create a framework within which regulators would act to help preserve and strengthen minority institutions. A recent interagency conference took place this past July to discuss how best to address what, as we as members of the National Bankers Association have described, as non-compliance by regulators with several provisions of FIRREA. Just a few weeks ago in our home base city of Durham, NC, representatives from several regulatory agencies advised the NBA's $80^{th}$ Annual Convention on steps their respective agencies were taking to support minority institutions; speakers included Sheila Bair, Director of the FDIC; Randy Kroszner, Member of the Federal Reserve Board of Governors; and John Reich, Director of the Office of Thrift Supervision(OTS).

Given the challenging operating circumstances outlined earlier, regulators' efforts and requirements to preserve and promote the expansion of minority banks have been at best ineffective. My next point focuses on recommendations that, if implemented, offer the potential, I believe, of meaningful and substantive assistance for minority banks.

**Take specific legislative steps to assist minority banks to raise capital and to operate efficiently.**

Let me state clearly that in no way do the recommendations made in this testimony suggest that the standards of banking safety and soundness be compromised in any way, or that this committee consider any measure that would create increased risk for the banking system. My bank, and those of my colleagues, share the regulators' goals of ensuring the safety and soundness of the banking system.

A major concern is that the market places such a significant discount on the value of minority banks that we are placed at a significant disadvantage, regardless of our stature or profitability, in our abilities to raise capital. . Yet, we all acknowledge the importance of minority banks to the economic fabric of our nation's communities. As a result, I respectfully submit that the Financial Services Committee has the means to address this, expeditiously and efficiently, by ensuring that bank regulators provide the necessary notification regarding the array of technical assistance services that are available. This would allow minority banks to operate more efficiently and attract capital.

Moreover, while the Financial Services Committee does not have jurisdiction over taxes, which is the under the purview of the Ways and Means Committee, there is a palpable role for incentives. Specifically, the CDFI Fund guidelines should be modified to include awarding tax credits for investments in minority banks.

The GAO report clearly highlights the difference in performance between minority and majority banks. These differences are shown to be both traditionally and universally experienced among minority banks. However, the regulatory benchmarks by which minority banks' performance is graded always compare these institutions with the UBPR-designated peer groups, such that a truly equitable comparison of performance factors is not considered or possible. The Financial Services Committee should also consider legislation so that regulatory peer group benchmarking and examination evaluations are tailored to recognize these differences, just as there exists now certain examination differences for money center banks versus smaller community banks.

The GAO report points out, and the NBA has repeatedly articulated, that minority banks express concern and frustration that regulators often fail to demonstrate sensitivity to and understanding of the unique challenges they face. It may be especially true in this case, when the overwhelming evidence demonstrates that minority banks' performance is affected by numerous factors not experienced by the banks to which their performance is being compared, and graded by the regulators.

Regulators should modify the grading process utilized in bank examinations such that minority banks are compared to a peer group of other minority banks, and within the context of this peer group structure, apply the factors of safety and soundness. In that way, more than just asset size and general market descriptions would be taken into consideration, and a more meaningful comparison of a minority bank's performance could be made.

**Minority financial institutions play a critical role in our nation's economy.**

Minority-owned businesses are an essential component of the small business sector that creates jobs, fosters stable communities and promotes economic vitality. In addition to being integral to America's small business landscape, minority-owned financial institutions provide an economic foundation for communities that historically have been underserved.

With respect to the current "crisis" surrounding the subprime mortgage market, I respectfully submit to the Committee that minority banks are expert at providing financing to underserved, financially illiterate, and unsophisticated borrowers in a safe, and sound manner. It is very likely, that had the market and nation better recognized the resource that minority banking institutions represent, the damage that has occurred – both in terms of financial losses and negative impact on the industry's reputation - could have been mitigated to a significant degree.

From a historical perspective, M&F Bank and many other minority banks have been catalysts for change in the markets they serve. Were you to research the genesis of these banks, you would find many instances where entire communities were underserved or even completely ignored by the mainstream banks.. Banks like M&F answered the call of those underserved communities to open a branch so that they would have convenient, equitable access to banking services. Then those mainstream banks – who until then had been quite content to allow people to travel across town to their existing locations – suddenly found those unserved or underserved markets to be a worthwhile place for a bank branch.

More often than not, the branch locations of minority banks reside in the very communities referred to in CRA guidelines. Stated another way, laws and regulations had to be created to compel banks to provide access to credit to the very same communities where we have placed our branches and operate daily. While CRA rewards majority banks for honoring the letter of the law, minority banks have long embodied the spirit of the law.

In the 99 years since we opened our doors, M&F Bank has successfully balanced our mission to provide access to high-quality, competitively positioned depository and loan products with our responsibility to operate a sound, secure and profitable institution. We have been blessed to enjoy 99 years of consecutive profitability, weathering the Great Depression and numerous economic cycles. Underlying these goals is our founding and ongoing commitment to reach out to the communities we serve in meaningful ways. We look forward to continuing to do so for centuries to come.

It is the sincere wish of the Boards of Directors of M&F Bancorp, Inc. and Mechanics and Farmers Bank that this committee will consider the recommendations made today, and take the necessary actions to truly "Preserve and Expand Minority Banks'.

Again, I am honored and appreciate the opportunity to testify, and I am available for questions and comments from this distinguished panel.

United States Government Accountability Office

GAO

Testimony
Before the Subcommittee on Oversight and Investigations, Committee on Financial Services, U.S. House of Representatives

For Release on Delivery
Expected at 10:00 a.m. EDT
October 30, 2007

# MINORITY BANKS

## Regulators' Assessments of the Effectiveness of Their Support Efforts Have Been Limited

Statement of George A. Scott, Director
Financial Markets and Community Investment

GAO
Accountability * Integrity * Reliability

GAO-08-233T

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# Highlights

## Why GAO Did This Study

## What GAO Recommends

October 2007

# MINORITY BANKS

## Regulators' Assessments of the Effectiveness of Their Support Efforts Have Been Limited

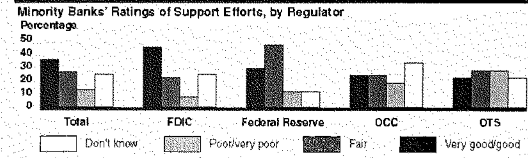
### What GAO Found

GAO reported in 2006 that the profitability of most large minority banks (assets greater than $100 million) was nearly equal to that of their peers (similarly sized banks) in 2005 and earlier years, according to FDIC data. However, many small minority banks and African-American banks of all sizes were less profitable than their peers. GAO's analysis and other studies identified some possible explanations for these differences, including relatively higher loan loss reserves and operating expenses and competition from larger banks.

Bank regulators had adopted differing approaches to supporting minority banks, but no agency had regularly and comprehensively assessed the effectiveness of its efforts. FDIC—which supervises over half of all minority banks—had the most comprehensive support efforts and leads interagency efforts. OTS focused on providing technical assistance to minority banks. While not required to do so by FIRREA, OCC and the Federal Reserve had taken some steps to support minority banks. Although FDIC had recently sought to assess the effectiveness of its support efforts through various methods, none of the regulators comprehensively surveyed minority banks or had developed performance measures. Consequently, the regulators were not well positioned to assess their support efforts.

GAO's survey of minority banks identified potential limitations in the regulators' support efforts that would likely be of significance to agency managers and warrant follow-up analysis. Only about one-third of survey respondents rated their regulators' efforts for minority banks as very good or good, while 26 percent rated the efforts as fair, 13 percent as poor or very poor, and 25 percent responded "don't know" (see fig.). Banks regulated by FDIC were more positive about their agency's efforts than banks regulated by other agencies. However, only about half of the FDIC-regulated banks and about a quarter of the banks regulated by other agencies rated their agency's efforts as very good or good. Although regulators may have emphasized the provision of technical assistance to minority banks, less than 30 percent of such institutions have used such agency services within the last 3 years and therefore may be missing opportunities to address problems that limit their operations or financial performance.

Minority Banks' Ratings of Support Efforts, by Regulator




Source: GAO.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here to discuss the findings of a report that we issued last year on the efforts of federal bank regulators to support minority banks.[1] As described in our report, minority banks are a small community within the banking industry, accounting for 2 percent of all financial institutions and total industry assets. Despite their small numbers, minority banks can play an important role in serving the financial needs of historically underserved communities, such as African-Americans, and growing populations of minorities, such as Hispanic-Americans and Asian-Americans.

For this reason, Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) established goals toward which federal regulators must work to preserve and promote such institutions.[2] For example, the Federal Deposit Insurance Corporation (FDIC) and the Office of Thrift Supervision (OTS), in consultation with the Department of the Treasury (Treasury), are required to provide minority banks with technical assistance and training and educational programs and work toward preserving the character of minority banks in cases involving mergers or acquisitions of these institutions (I will refer to such activities as minority bank support efforts in my testimony today).[3] While the other bank regulators—the Board of Governors of the Federal Reserve System (Federal Reserve) and the Office of the Comptroller of the Currency (OCC)—are not subject to Section 308 of FIRREA, they also have engaged in efforts to support minority banks over the years.

You and other members of the House Financial Services Committee, including the Chairman, requested in 2005 that we review the efforts of all

[1]GAO, *Minority Banks: Regulators Need to Better Assess Effectiveness of Support Efforts*, GAO-07-6 (Washington, D.C.: Oct. 4, 2006). The term "minority banks" refers to all depository institutions—including thrifts—that are considered minority- or women-owned by the Department of the Treasury and the federal banking regulators—the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision.

[2]FIRREA, Pub. L. No. 101-73, § 308, 103 Stat. 183, 353 (1989).

[3]While Treasury convened interagency panels on minority bank issues in the early 1990s, department officials said it no longer does so. According to Treasury officials, the FIRREA consulting requirement is open to some interpretation and the general view within the department was that ongoing consultations were not required. However, Treasury officials said that they do discuss minority bank issues with the regulators as the need arises.

of the regulators to support minority banks out of concerns about the effectiveness of those efforts. We had previously reported in 1993 that while FDIC and OTS had taken steps to comply with Section 308, minority banks had mixed views on the effectiveness of the agencies' efforts.[4] In particular, minority banks were concerned that the regulators did not provide adequate technical assistance, and, more generally, that agency safety and soundness examiners did not understand the unique challenges that their institutions faced. We recommended in the 1993 report that FDIC and OTS periodically survey minority banks to assess the effectiveness of their support efforts. Given the passage of time between 1993 and 2005, you requested that we follow up on minority bank issues and the efforts of all bank regulators to support such institutions.

In my testimony today, I will discuss the key findings of our 2006 report, which included steps to (1) review the profitability of minority banks over time; (2) identify the regulators' minority bank support efforts and determine whether the regulators were evaluating the effectiveness of those efforts; and (3) obtain the views of minority banks on the support efforts and related regulatory issues. Additionally, in the last section of this testimony, I will provide a brief update on some of the steps the regulators have taken in response to recommendations in our 2006 report.

To address the first objective, we obtained and analyzed financial data for minority banks from FDIC for 1995, 2000, and 2005. We also reviewed background literature and conducted interviews with minority banks to discuss the business environment in which these banks operate. For the second objective, we interviewed officials from Treasury, FDIC, the Federal Reserve, OCC, and OTS and reviewed regulators' documentation addressing their efforts to support minority banks and assess the effectiveness of these efforts. We also compared the regulators' efforts to our standards for program assessment and performance measures and those established in the Government Performance and Results Act.[5] To address the third objective, we surveyed all institutions identified by the banking regulators as minority institutions. The Web-based survey, which was conducted from March through April 2006, asked about the banks' awareness and use of the regulators' minority bank support efforts and

[4]GAO, *Minority-Owned Financial Institutions: Status of Federal Efforts to Preserve Minority Ownership*, GAO/GGD-94-1 (Washington, D.C.: Nov. 3, 1993).

[5]Government Performance and Results Act of 1993, Pub. L. No. 103-62, §7, 107 Stat. 285, 292, (codified at 39 U.S.C. § 2801(1)).

also asked the banks to rate these efforts. We received 149 survey responses out of a total population of 195 minority banks, for a response rate of 76 percent. Finally, in preparation for this testimony, we contacted the regulators in order to obtain information on any efforts they may have undertaken in response to the recommendations in our 2006 report.

We conducted our work in Washington, D.C., and New York in accordance with generally accepted government auditing standards.

## In Brief

Our analysis of FDIC data showed that while the profitability of most minority banks with assets greater than $100 million nearly equaled the profitability of all similarly sized banks (peers), the profitability of smaller minority banks and African-American banks of all sizes did not.[6] Profitability is commonly measured by return on assets (ROA), or the ratio of profits to assets, and ROAs are typically compared across peer groups to assess performance.[7] Many small minority banks (those with less than $100 million in assets) had ROAs that were substantially lower than those of their peer groups in 2005 as well as in 1995 and 2000. Moreover, African-American banks of all sizes had ROAs that were significantly below those of their peers in 2005 as well as in 1995 and 2000 (African-American banks of all sizes and other small minority banks account for about half of all minority banks). Our analysis of FDIC data identified some possible explanations for the relatively low profitability of some small minority banks and African-American banks, such as relatively higher reserves for potential loan losses and administrative expenses and competition from larger banks. Nevertheless, the majority of officials from banks across all minority groups were positive about their banks' financial outlook, and many saw their minority status as an advantage in serving their communities (for example, in providing services in the language predominantly used by the minority community).

The bank regulators have adopted differing approaches to supporting minority banks, and, at the time of our review, no agency had assessed the effectiveness of its efforts through regular and comprehensive surveys of

[6]The FDIC definition for peer groups includes all institutions of a similar asset size, including minority and nonminority institutions.

[7]Examples of assets include loans and securities.

minority banks or outcome-oriented performance measures.[8] FDIC—which supervises more than half of all minority banks—had the most comprehensive program to support minority banks and led an interagency group that coordinates such efforts. Among other things, FDIC has designated officials in the agency's headquarters and regional offices to be responsible for minority bank efforts, held periodic conferences for minority banks, and established formal policies for annual outreach to the banks it regulates to make them aware of available technical assistance. OTS also designated staff to be responsible for the agency's efforts to support minority banks, developed outreach procedures, and focused its efforts on providing technical assistance. OCC and the Federal Reserve, while not required to do so by Section 308 of FIRREA, undertook some efforts to support minority banks, such as holding occasional conferences for Native American banks, and were planning additional efforts. FDIC proactively sought to assess the effectiveness of its support efforts; for example, it surveyed minority banks. However, these surveys did not address key activities, such as the provision of technical assistance, and the agency had not established outcome-oriented performance measures for its support efforts. Furthermore, none of the other regulators comprehensively surveyed minority banks on the effectiveness of their support efforts or established outcome-oriented performance measures. Consequently, the regulators were not well positioned to assess the results of their support efforts or identify areas for improvement.

Our survey of minority banks identified potential limitations in the regulators' support efforts that likely would be of significance to agency managers and warrant follow-up analysis. About one-third of survey respondents rated their regulators' efforts for minority banks as very good or good, while 26 percent rated the efforts as fair, 13 percent as poor or very poor, and 25 percent responded "do not know." FDIC-regulated banks were more positive about their agency's efforts than banks that other agencies regulated. However, only about half of the FDIC-regulated banks and about a quarter of the banks regulated by other agencies rated their agency's efforts as very good or good. Although regulators may emphasize the provision of technical assistance to minority banks, less than 30 percent of such institutions said they had used such agency services within the last 3 years. Therefore, the banks may have been missing opportunities to address problems that limited their operations or

[8] Outcome-oriented performance measures assess the results of a program against its intended purposes.

financial performance. As we found in our 1993 report, some minority bank officials also said that examiners did not always understand the challenges that the banks may face in providing services in their communities or operating environments. Although the bank officials said they did not expect special treatment in the examination process, they suggested that examiners needed to undergo more training to improve their understanding of minority banks and the customer base they serve.

To allow the regulators to better understand the effectiveness of their support efforts, our October 2006 report recommended that the regulators review such efforts and, in so doing, consider employing the following methods: (1) regularly surveying the minority banks under their supervision on all efforts and regulatory areas affecting these institutions; or (2) establishing outcome-oriented performance measures to evaluate the extent to which their efforts are achieving their objectives. Subsequent to the report's issuance, the regulators have reported taking steps to better assess or enhance their minority bank support efforts. For example, all of the regulators have developed surveys or are in the process of consulting with minority banks to obtain feedback on their support efforts. I also note that some regulators plan to provide additional training to their examiners on minority bank issues. These initiatives are positive developments, but it is too soon to evaluate their effectiveness. We encourage agency officials to ensure that they collect and analyze relevant data and take steps to enhance their minority bank support efforts as may be warranted.

## Background

Many minority banks are located in urban areas and seek to serve distressed communities and populations that financial institutions traditionally have underserved. For example, after the Civil War, banks were established to provide financial services to African-Americans. More recently, Asian-American and Hispanic-American banks have been established to serve the rapidly growing Asian and Hispanic communities in the United States. In our review of regulators' lists of minority banks, we identified a total minority bank population of 195 for 2005 (see table 1).

**Table 1: Number and Percentage of Minority Banks, by Type, 2006**

| Type of minority bank | Number of banks | Percentage of all minority banks |
|---|---|---|
| Asian-American[a] | 73 | 37 |
| African-American | 46 | 24 |
| Hispanic-American | 38 | 19 |
| Native American | 20 | 10 |
| Women-owned | 13 | 7 |
| Other[b] | 5 | 3 |
| **Total** | **195** | **100** |

Source GAO analysis of Treasury and federal banking regulators' data

Note We identified the total minority bank population by obtaining and reviewing the most current lists (available at the time the population was compiled) from the federal banking regulators and Treasury We reviewed FDIC and the Federal Reserve's publicly available lists, which were current as of September 30, 2005 We also reviewed OCC's list from December 31, 2005, Treasury's most recent list from 2004, and OTS's from January 2006

[a]Asian-American includes individuals of Pacific Island descent

[b]The "other" category includes banks considered to have minority status that are not covered by the listed minority categories "Other" also includes banks that are owned or managed by more than one minority group in accordance with a banking regulator's definition

Table 2 shows that the distribution of minority banks by size is similar to the distribution of all banks by size. More than 40 percent of all minority banks had assets of less than $100 million.

**Table 2: Percentage of Minority Banks and Total Banking Industry, by Asset Size, 2005**

| Asset size | Percentage of minority banks | Percentage of total banking industry |
|---|---|---|
| < $100 million | 42 | 44 |
| $100 million to $300 million | 32 | 33 |
| $300 million to $500 million | 9 | 9 |
| $500 million to $1 billion | 7 | 7 |
| $1 billion to $10 billion | 7 | 6 |
| > $10 billion | 3 | 1 |
| **Total** | **100** | **100** |

Source GAO analysis of FDIC data

Each federally insured depository institution, including each minority bank, has a primary federal regulator. As shown in table 3, FDIC serves as the primary federal regulator for more than half of minority banks—109 of the 195 banks, or 56 percent—and the Federal Reserve regulates the fewest.

**Table 3: Number of Minority Banks, by Regulator, 2005**

| Regulator | Number of minority banks | Percentage |
|---|---|---|
| FDIC | 109 | 56 |
| OCC | 43 | 22 |
| OTS | 22 | 11 |
| Federal Reserve | 21 | 11 |
| **Total** | **195** | **100** |

Source GAO analysis of Treasury and the federal banking regulators' data

Note Treasury and the banking regulators have different criteria for the banks they consider to be eligible to participate in their minority bank efforts In accordance with our request, in our population of minority banks we included any bank considered by at least one regulator to be eligible to participate in its efforts However, in some cases minority banks not considered by their primary regulator to be minority institutions were considered to be eligible for participation in another regulator's efforts We identified 10 FDIC-regulated banks, 4 Federal Reserve-regulated banks, 3 OCC-regulated banks, and 1 OTS-regulated bank fitting this description

The federal regulators primarily focus on ensuring the safety and soundness of banks and do so through on-site examinations and other means. Regulators may also close banks that are deemed insolvent and posing a risk to the Deposit Insurance Fund.[9] FDIC is responsible for ensuring that the deposits in failed banks are protected up to established deposit insurance limits.

While the regulators' primary focus is bank safety and soundness, laws and regulations can identify additional goals and objectives. Recognizing the importance of minority banks, Section 308 of FIRREA outlined five broad goals toward which FDIC and OTS, in consultation with Treasury, are to work to preserve and promote minority banks. These goals are:

- preserving the present number of minority banks;
- preserving their minority character in cases involving mergers or acquisitions of minority banks;
- providing technical assistance to prevent insolvency of institutions that are not currently insolvent;

[9] FDIC administers the fund, which provides deposit insurance for banks and thrifts.

- promoting and encouraging the creation of new minority banks; and
- providing for training, technical assistance, and education programs.

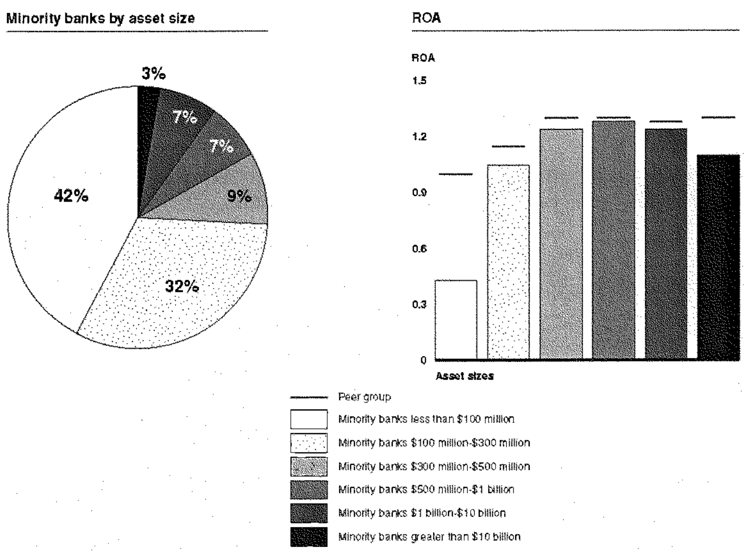
Technical assistance is typically defined as one-to-one assistance that a regulator may provide to a bank in response to a request. For example, a regulator may advise a bank on compliance with a particular statute or regulation. Regulators also may provide technical assistance to banks that is related to deficiencies identified in safety and soundness examinations. In contrast, education programs typically are open to all banks regulated by a particular agency or all banks located within a regulator's regional office. For example, regulators may offer training for banks to review compliance with laws and regulations.

## Large Minority Banks Showed Profitability Close to That of Their Peers, but Many Small and African-American Banks Have Been Less Profitable

As shown in figure 1, our 2006 report found that, according to FDIC data, most minority banks with assets exceeding $100 million had ROAs in 2005 that were close to those of their peer groups, while many smaller banks had ROAs that were significantly lower than those of their peers. Minority banks with more than $100 million in assets accounted for 58 percent of all minority banks, while those with less than $100 million accounted for 42 percent. Each size category of minority banks with more than $100 million in assets had a weighted average ROA that was slightly lower than that of its peers, but in each case their ROAs exceeded 1 percent.[10] By historical banking industry standards, an ROA of 1 percent or more generally has been considered to indicate an adequate level of profitability. We found that profitability of the larger minority, Hispanic-American, Asian-American, Native American, and women-owned banks were close to, and in some cases exceeded, the profitability of their peers in 2005.

[10] A weighted average is a variation on a simple average. Weighted averages take into account banks' asset size instead of counting each bank as an equal unit.

Figure 1: Percentage of Minority Banks by Size and Average ROA for Minority Banks and Peer Groups by Asset Size, 2005

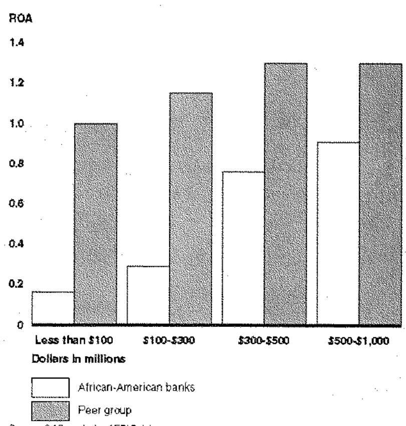


Source: GAO.

In contrast, small minority banks (those with assets of less than $100 million) had an average ROA of 0.4 percent, and their peers had an average ROA of 1 percent. Our analysis of FDIC data for 1995 and 2000 also indicated some similar patterns, with minority banks with assets greater than $100 million showing levels of profitability that generally were close to those of their peers, or ROAs of about 1 percent, and minority banks with assets of less than $100 million showing greater differences with their peers.

The profitability of African-American banks generally has been below that of their peers in all size categories (see fig. 2).[11] For example, African-American banks with less than $100 million in assets—which constitute 61 percent of all African-American banks—had an average ROA of 0.16 percent, while their peers averaged 1.0 percent. Our analysis of FDIC data for 2000 and 1995 also found that African-American banks of all sizes had lower ROAs than their peers.

**Figure 2: Average ROA of African-American Banks and Peer Banks by Asset Size, 2005**




Source: GAO analysis of FDIC data.

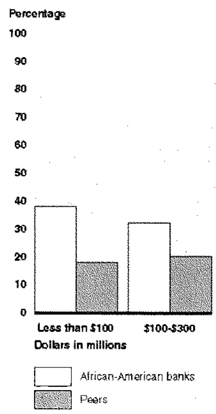
Our analysis of 2005 FDIC data also suggests some possible reasons for the differences in profitability between some minority banks and their peers.[12] For example, our analysis of 2005 FDIC data showed that African-

[11] In 2005, African-American banks did not occupy all asset size categories. The largest African-American banks had less than $1 billion in assets; thus, they did not populate in the two largest size categories: $1 billion to $10 billion and greater than $10 billion.

[12] While our review offers possible explanations for lower levels of profitability among some minority banks, it does not attempt to fully explain the differences among various minority groups or sizes of minority banks.

American banks with assets of less than $300 million—which constitute 87 percent of all African-American banks—had significantly higher loan loss reserves as a percentage of their total assets than the average for their peers (see fig. 3).[13] Although having higher loan loss reserves may be necessary for the safe and sound operation of any particular bank, they lower bank profits because loan loss reserves are counted as expenses.

**Figure 3: Average Loan Loss Reserves as a Percentage of Assets for African-American and Peer Banks, 2005**



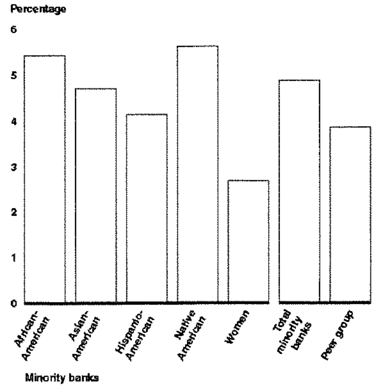

Source: GAO analysis of FDIC data.

We also found some evidence that higher operating expenses might affect the profitability of some minority banks. Operating expenses—expenditures for items such as administrative expenses and salaries—typically are compared to an institution's total earning assets, such as loans and investments, to indicate the proportion of earning assets that banks spend on operating expenses. As figure 4 indicates, many minority banks with less than $100 million in assets had higher operating expenses

[13]The term "loan loss reserves" refers to the allowance each bank must maintain to absorb estimated credit losses associated with its loan and lease portfolio.

than their peers in 2005. Academic studies we reviewed generally reached similar conclusions.

**Figure 4: Average Operating Expenses Relative to Earning Assets of Banks with Assets Less Than $100 million, 2005**




Source: GAO analysis of FDIC data

Officials from several minority banks we contacted also described aspects of their operating environment, business practices, and customer service that could result in higher operating costs. In particular, the officials cited the costs associated with providing banking services in low-income urban areas or in communities with high immigrant populations. Bank officials also told us that they focus on fostering strong customer relationships, sometimes providing financial literacy services. Consequently, as part of their mission these banks spend more time and resources on their customers per transaction than other banks. Other minority bank officials said that their customers made relatively small deposits and preferred to do business in person at bank branch locations rather than through potentially lower-cost alternatives, such as over the phone or the Internet.

Minority bank officials also cited other factors that may have limited their profitability. In particular, in response to Community Reinvestment Act (CRA) incentives, the officials said that larger banks and other financial institutions were increasing competition for minority banks' traditional customer base.[14] The officials said that larger banks could offer loans and other financial services at more competitive prices because they could raise funds at lower rates and take advantage of operational efficiencies. In addition, officials from some African-American and Hispanic banks cited attracting and retaining quality staff as a challenge to their profitability.

Despite these challenges, officials from banks across minority groups were optimistic about the financial outlook for their institutions. When asked in our survey to rate their financial outlook compared to those of the past 3 to 5 years, 65 percent said it would be much or slightly better, 21 percent thought it would be about the same, and 11 percent thought it would be slightly or much worse, while 3 percent did not know. Officials from minority banks said that their institutions had advantages in serving minority communities. For example, officials from an Asian-American bank said that the staff's ability to communicate in the customers' primary language provided a competitive advantage.

## Regulators Adopted Differing Approaches to Supporting Minority Banks, but Assessment Efforts Were Limited

Our report found that FDIC—which supervises 109 of 195 minority banks—had developed the most extensive efforts to support minority banks among the banking regulators (see fig. 5). FDIC had also taken the lead in coordinating regulators' efforts in support of minority banks, including leading a group of all the banking regulators that meets semiannually to discuss individual agency initiatives, training and outreach events, and each agency's list of minority banks. OTS had developed a variety of support programs, including developing a minority bank policy statement and staffing support structure. OCC had also taken steps to support minority banks, such as developing a policy statement. OCC and the Federal Reserve had also hosted events for some minority banks.

[14] Section 807 of the Community Reinvestment Act of 1977 requires the federal banking regulators in connection with their examination of each institution they supervise to assess the institution's record of meeting the credit needs of the entire community it serves, including moderate- and low-income neighborhoods. Pub. L. No. 95-128, § 807, 91 Stat. 1147 (codified as amended at 12 U.S.C. § 2906).

**Figure 5: Banking Regulators' Efforts to Support Minority Banks, as of October 2006**

| | FDIC | OTS | OCC (not under Section 308) | Federal Reserve (not under Section 308) |
|---|---|---|---|---|
| Policy statement | ■ | ■ | ■ | |
| Staffing structure | ■ | ■ | | |
| Web page with resources for minority banks | ■ | | ■ | |
| Holds events for minority banks[a] | ■ | ■ | ■ | ■ |
| Technical assistance and other outreach procedures | ■ | ■ | | |
| Written policy for troubled/failing minority banks | ■ | ■ | ■ | |

Source: GAO.

[a]FDIC holds conferences for all minority banks on a regular basis. OTS, OCC, and the Federal Reserve have hosted occasional events for some groups of minority banks.

The following highlights some key support activities discussed in our October 2006 report.

**Policy Statements.** FDIC, OTS, and OCC all have policy statements that outline the agencies' efforts for minority banks. They discuss how the regulators identify minority banks, participate in minority bank events, provide technical assistance, and work toward preserving the character of minority banks during the resolution process. OCC officials told us that they developed their policy statement in 2001 after an interagency meeting of the federal banking regulators on minority bank issues. Both FDIC and OTS issued policy statements in 2002.

**Staffing Structure.** FDIC has a national coordinator in Washington, D.C. and coordinators in each regional office from its Division of Supervision and Consumer Protection to implement the agency's minority bank program. Among other responsibilities, the national coordinator regularly contacts minority bank trade associations about participation in events and other issues, coordinates with other agencies, and compiles quarterly reports for the FDIC chairman based on regional coordinators' reports on their minority bank activities. Similarly, OTS has a national coordinator in its headquarters and supervisory and community affairs staff in each region who maintain contact with the minority banks that OTS regulates. While OCC and the Federal Reserve did not have similar staffing structures, officials from these agencies had contacted minority banks among their responsibilities.

**Minority Bank Events and Training.** FDIC has taken the lead role in sponsoring, hosting, and coordinating events in support of minority banks. For example, in August 2006 FDIC sponsored a national conference for minority banks in which representatives from OTS, OCC, and the Federal Reserve participated. FDIC also has sponsored the Minority Bankers Roundtable (MBR) series, which agency officials told us was designed to provide insight into the regulatory relationship between minority banks and FDIC and explore opportunities for partnerships between FDIC and these banks. In 2005, FDIC held six roundtables around the country for minority banks supervised by all of the regulators. To varying degrees, OTS, OCC, and the Federal Reserve also have held events to support minority banks, such as Native American Institutions.

**Technical Assistance.** All of the federal banking regulators told us that they provided their minority banks with technical assistance if requested, but only FDIC and OTS have specific procedures for offering this assistance. More specifically, FDIC and OTS officials told us that they proactively seek to make minority banks aware of such assistance through established outreach procedures outside of their customary examination and supervision processes. FDIC also has a policy that requires its regional coordinators to ensure that examination case managers contact minority banks from 90 to 120 days after an examination to offer technical assistance in any problem areas that were identified during the examination. This policy is unique to minority banks. OCC and the Federal Reserve provide technical assistance to all of their banks, but had not established outreach procedures for all their minority banks outside of the customary examination and supervision processes. However, OCC officials told us that they were in the process of developing an outreach plan for all minority banks regulated by the agency. Federal Reserve officials told us that Federal Reserve districts conduct informal outreach to their minority banks and consult with other districts on minority bank issues as needed.

**Policies to Preserve the Minority Character of Troubled Banks.** FDIC has developed policies for failing banks that are consistent with FIRREA's requirement that the agency work to preserve the minority character of minority banks in cases of mergers and acquisitions. For example, FDIC maintains a list of qualified minority banks or minority investors that may be asked to bid on the assets of troubled minority banks that are expected to fail. However, FDIC is required to accept the bids on failing banks that pose the lowest expected cost to the Deposit Insurance Fund.[15] As a result, all bidders, including minority bidders, are subject to competition. OTS and OCC have developed written policies that describe how the agencies will work with FDIC to identify qualified minority banks or investors to acquire minority banks that are failing. While the Federal Reserve does not have a similar written policy, agency officials say that they also work with FDIC to identify qualified minority banks or investors. All four agencies also said that they try to assist troubled minority banks improve their financial condition before it deteriorates to the point that a resolution through FDIC becomes necessary. For example, agencies may provide technical assistance in such situations or try to identify other minority banks willing to acquire or merge with the troubled institutions.

## At the Time of our Report, Regulators Did Not Assess Their Support Efforts through Surveys or Performance Measures

While FDIC was proactive in assessing its support efforts for minority banks, none of the regulators routinely and comprehensively surveyed their minority banks on all issues affecting the institutions, nor have the regulators established outcome-oriented performance measures. Evaluating the effectiveness of federal programs is vitally important to manage programs successfully and improve program results. To this end, in 1993 Congress enacted the Government Performance and Results Act, which instituted a governmentwide requirement that agencies report on their results in achieving their agency and program goals.

As part of its assessment methods, FDIC conducted roundtables and surveyed minority banks on aspects of its minority bank efforts. For example, in 2005, FDIC requested feedback on its efforts from institutions that attended the agency's six MBRs (which approximately one-third of minority banks attended). The agency also sent a survey letter to all minority banks to seek their feedback on several proposals to better serve such institutions, but only 24 minority banks responded. The proposals included holding another national minority bank conference, instituting a

[15]Section 13(c) of the Federal Deposit Insurance Act (codified at 12 U.S.C. § 1823(c)), as amended in 1991, prohibits FDIC from engaging in the assisted resolution of any failed depository institution unless FDIC determines that the total amount of expenditures and obligations it would incur in doing so would represent the least costly alternative.

partnership program with universities, and developing a minority bank museum exhibition.[16] FDIC officials said that they used the information gathered from the MBRs and the survey to develop recommendations for improving programs and developing new initiatives.

While FDIC had taken steps to assess the effectiveness of its minority bank support efforts, we identified some limitations in its approach. For example, in FDIC's surveys of minority banks, the agency did not solicit feedback on key aspects of its support efforts, such as the provision of technical assistance. Moreover, FDIC has not established outcome-oriented performance measures to gauge the effectiveness of its various support efforts. None of the other regulators had surveyed minority banks recently on support efforts or developed performance measures.

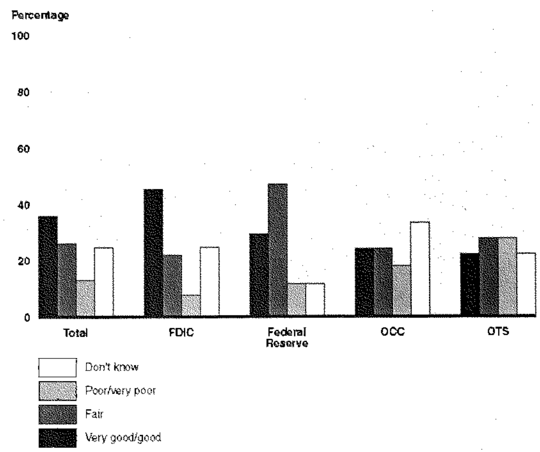
By not taking such steps, we concluded that the regulators were not well positioned to assess their support efforts or identify areas for improvement. Further, the regulators could not take corrective action as necessary to provide better support efforts to minority banks.

## Survey of Minority Banks Identified Potential Limitations in Regulators' Support Efforts and Other Regulatory Issues

Minority bank officials we surveyed identified potential limitations in the regulators' efforts to support them and related regulatory issues, such as examiners' understanding of issues affecting minority banks, which would likely be of significance to agency managers and warrant follow-up analysis. Some 36 percent of survey respondents described their regulators' efforts as very good or good, 26 percent described them as fair, and 13 percent described the efforts as poor or very poor (see fig. 6). A relatively large percentage—25 percent—responded "do not know" to this question.

[16] The museum exhibition would have traced the history of minority banks in the United States. However, after conducting additional research on this proposal, FDIC decided not to pursue the project, in part because of limited interest from some minority banks.

Figure 6: Minority Banks' Ratings of Support Efforts, by Regulator

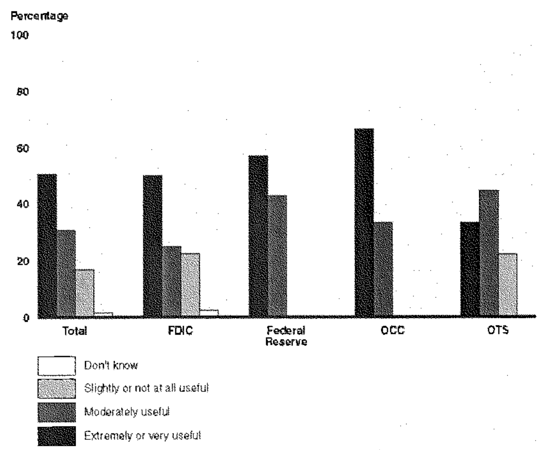



Source: GAO.

Banks' responses varied by regulator, with 45 percent of banks regulated by FDIC giving very good or good responses, compared with about 25 percent of banks regulated by other agencies. However, more than half of FDIC-regulated banks and about three-quarters of the other minority banks responded that their regulator's efforts were fair, poor, or very poor or responded with a "do not know." In particular, banks regulated by OTS gave the highest percentage of poor or very poor marks, while banks regulated by the Federal Reserve most often provided fair marks.

Nearly half of minority banks reported that they attended FDIC roundtables and conferences designed for minority banks, and about half of the 65 respondents that attended these events found them to be extremely or very useful (see fig. 7). Almost a third found them to be moderately useful, and 17 percent found them to be slightly or not at all useful. One participant commented that the information was useful, as was the opportunity to meet the regulators. Many banks also commented that the events provided a good opportunity to network and share ideas with other minority banks.

**Figure 7: Usefulness of FDIC's Roundtables and Conferences, by Regulator**



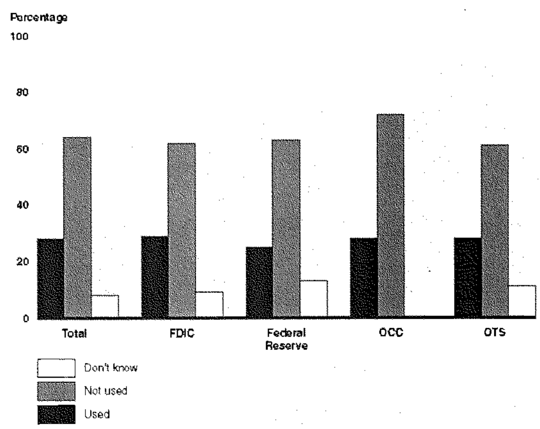

Source: GAO.

While FDIC and OTS emphasized technical services as key components of their efforts to support minority banks, less than 30 percent of the institutions they regulate reported using such assistance within the last 3 years (see fig. 8). Minority banks regulated by OCC and the Federal Reserve reported similarly low usage of technical assistance services. However, of the few banks that used technical assistance—41—the majority rated the assistance provided as extremely or very useful.[17] Further, although small minority banks and African-American banks of all

[17]The survey did find that minority banks that FDIC and OTS regulated were more aware of the agencies' technical assistance outreach efforts than institutions that OCC and the Federal Reserve regulated. This finding is consistent with the fact that FDIC and OTS have formalized technical assistance outreach efforts, while the other regulators do not.

sizes have consistently faced financial challenges and might benefit from certain types of assistance, the banks also reported low rates of usage of the agencies' technical assistance. While our survey did not address the reasons that relatively few minority banks appear to use the technical assistance and banking regulators cannot compel banks under their supervision to make use of offered technical assistance, the potential exists that many such institutions may be missing opportunities to learn how to correct problems that limit their operational and financial performance.

**Figure 8: Minority Banks' Use of Technical Assistance, by Regulator**




Source: GAO.

## Survey Respondents Expressed Concerns about the Examination Process and a Provision of CRA Designed to Assist Minority Banks

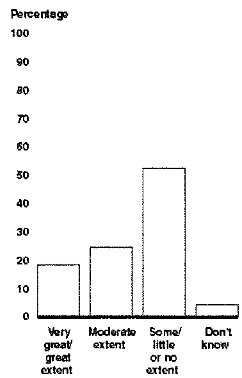
More than 80 percent of the minority banks we surveyed responded that their regulators did a very good or good job of administering examinations, and almost 90 percent felt that they had very good or good relationships with their regulator. However, as in our 1993 report, some minority bank officials said in both survey responses and interviews that examiners did not always understand the challenges the banks faced in providing services in their particular communities. Twenty-one percent of survey respondents mentioned this issue when asked for suggestions about how regulators could improve their efforts to support minority banks, and several minority banks that we interviewed elaborated on this topic.

The bank officials said that examiners tended to treat minority banks like any other bank when they conducted examinations and thought such comparisons were not appropriate. For example, some bank officials whose institutions serve immigrant communities said that their customers tended to do business in cash and carried a significant amount of cash because banking services were not widely available or trusted in the customers' home countries. Bank officials said that examiners sometimes commented negatively on the practice of customers doing business in cash or placed the bank under increased scrutiny relative to the Bank Secrecy Act's requirements for cash transactions.[18] While the bank officials said that they did not expect preferential treatment in the examination process, several suggested that examiners undergo additional training so that they could better understand minority banks and the communities that these institutions served. FDIC has conducted such training for its examiners. In 2004, FDIC invited the president of a minority bank to speak to about 500 FDIC examiners on the uniqueness of minority banks and the examination process. FDIC officials later reported that the examiners found the discussion helpful.

Many survey respondents also said that a CRA provision that was designed to assist their institutions was not effectively achieving this goal. The provision allows bank regulators conducting CRA examinations to give consideration to banks that assist minority banks through capital investment, loan participation, and other ventures that help meet the credit needs of local communities. Despite this provision, only 18 percent of survey respondents said that CRA had—to a very great or great extent—encouraged other institutions to invest in or form partnerships with their institutions, while more than half said that CRA encouraged such activities to some, little, or no extent (see fig. 9). Some minority bankers attributed their view that the CRA provision has not been effective, in part, to a lack of clarity in interagency guidance on the act's implementation. They said that the interagency guidance should be clarified to assure banks that they will receive CRA consideration in making investments in minority banks.

[18]The body of law commonly referred to as the Bank Secrecy Act (BSA) is codified at 31 U.S.C. §§ 5311-5322 and 12 U.S.C. §§ 1829b and 1951–1959.

**Figure 9: Minority Banks' Evaluation of the Extent to Which CRA Has Encouraged Partnerships with Other Institutions**




Source: GAO

## Regulators Recently Have Taken Steps to Assess and Enhance Their Minority Bank Support Efforts, but It Is Too Soon to Assess Their Effectiveness

Our 2006 report recommended that the bank regulators regularly review the effectiveness of their minority bank support efforts and related regulatory activities and, as appropriate, make changes necessary to better serve such institutions. In conducting such reviews, we recommended that the regulators consider conducting periodic surveys of minority banks or developing outcome-oriented performance measures for their support efforts. In conducting such reviews, we also suggested that the regulators focus on the overall views of minority banks about support efforts, the usage and effectiveness of technical assistance (particularly assistance provided to small minority and African-American banks), and the level of training provided to agency examiners on minority banks and their operating environments.

Over the past year, bank regulatory officials we contacted identified several steps that they have initiated to assess the effectiveness of their minority bank support efforts or to enhance such support efforts. They include the following actions:

- A Federal Reserve official told us that the agency has established a working group that is developing a pilot training program for minority banks and new banks. The official said that three training modules have been drafted for different phases of a bank's life, including starting a bank, operating a bank during its first 5 years of existence, and bank expansion. The official said that the program will be piloted throughout the U.S. beginning in early November 2007. Throughout the course of developing, drafting, and piloting the program, Federal Reserve officials said they have, and will continue to, consult with minority bankers to obtain feedback on the effort.

- An OCC official said that the agency recently sent a survey to minority banks on its education, outreach, and technical assistance efforts that should be completed by the end of October. OCC also plans to follow up this survey with a series of focus groups. In addition, the official said OCC just completed an internal survey of certain officials involved in supervising minority institutions, and plans to review the results of the two surveys and focus groups to improve its minority bank support efforts.

- FDIC officials told us that the agency has developed a survey to obtain feedback on the agency's minority bank support efforts. They estimate that the survey will be sent out to all minority institutions (not just those minority banks FDIC supervises) in mid-December 2007.

- An OTS official told us that the agency will send out a survey to the minority banks the agency supervises on its efforts in the next couple weeks and that it has also conducted a series of roundtables with minority banks in the past year.

The federal banking agencies have also taken some steps to address other issues raised in our report. For example, Federal Reserve and FDIC officials told us that that the agencies will provide additional training on minority bank issues to their examiners. In addition, in July 2007 the federal banking agencies published a CRA Interagency Notice that requested comments on nine new "Questions and Answers" about community reinvestment.[19] One question covers how majority banks may engage in and receive positive CRA consideration for activities conducted with minority institutions. An OCC official said that the comments on the proposed "Q and As" are under review.

[19]Community Reinvestment Act; Interagency Questions and Answers Regarding Community Investment, 72 Fed. Reg. 37922 (notice and request for comment Jul. 11, 2007).

While the regulators' recent efforts to assess and enhance their minority bank support efforts and other activities are encouraging, it is too soon to assess their effectiveness. For example, the Federal Reserve's pilot training program for minority and new banks is not scheduled to begin until later this year. Further, the other regulators' efforts to survey minority banks on support efforts generally also are at an early stage. We encourage agency officials to ensure that they collect and analyze relevant data and take steps to enhance their minority bank support efforts as warranted.

Mr. Chairman, this concludes my prepared statement. I would be happy to address any questions that you or subcommittee members may have.

## GAO Contacts

For further information about this testimony, please contact George A. Scott on (202) 512-7215 or at scottg@gao.gov.

## Staff Acknowledgments

Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals making key contributions include Wesley M. Phillips, Assistant Director; Allison Abrams; Kevin Averyt; and Barbara Roesmann.

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**STATEMENT OF**

**SANDRA L. THOMPSON**
**DIRECTOR**
**DIVISION OF SUPERVISION AND CONSUMER PROTECTION**
**FEDERAL DEPOSIT INSURANCE CORPORATION**

**on**

**PRESERVING AND EXPANDING MINORITY BANKS**

**before the**

**SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS**

**of the**

**FINANCIAL SERVICES COMMITTEE**
**U.S. HOUSE OF REPRESENTATIVES**

**October 30, 2007**
**2128 Rayburn House Office Building**

Chairman Watt, Ranking Member Miller, and members of the Committee, I appreciate the opportunity to testify on behalf of the Federal Deposit Insurance Corporation (FDIC) regarding the FDIC's role in preserving and expanding opportunities for minority depository institutions (MDIs). Historically, MDIs play a vital role in their communities. They serve as a key source of credit and other banking services essential to economic growth and business development in areas that are often underserved by traditional depository institutions.

My testimony will discuss the current financial condition of MDIs and the FDIC's efforts to implement the statutory mandate under section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) to preserve and encourage minority ownership of depository institutions. My testimony also will detail the FDIC's actions to respond to the recommendations in the October 2006 report by the Government Accountability Office (GAO) on MDIs.

**The Condition of Minority Depository Institutions**

As of June 30, 2007, there were 205 MDIs in the banking system, including 129 supervised by the FDIC. These MDIs ranged in size from $2 million to $25 billion in assets. However, over 63 percent of MDIs have $250 million in assets or less. The capital levels of MDIs are roughly comparable to that of the industry. More than 99 percent of MDIs meet or exceed the highest regulatory capital standards. In addition, minority-owned institutions are more likely to be headquartered in urban areas than other banks and thrifts, with almost 90 percent headquartered in metropolitan areas, compared to slightly more than 50 percent of all insured institutions.

A larger proportion of MDIs are new compared to the industry average. Almost 17 percent of minority-owned institutions are less than five years old compared to 8.5 percent of the overall industry. In fact, almost 12 percent of minority-owned institutions are less than two years old, compared to an industry average of 4.4 percent.

While most MDIs are profitable, the financial performance of MDIs, as a group, lags behind that of non-minority institutions. The average return on assets (ROA) for minority-owned institutions in the first half of 2007 was 0.69 percent, compared to an industry average of 1.21 percent. Less than one in three minority-owned institutions (30.5 percent) had an ROA of 1 percent or higher, while 47.3 percent of all insured institutions had ROAs of 1 percent or better. In addition, almost a quarter of minority-owned institutions (23.2 percent) were unprofitable for the first six months of this year, compared to 9.4 percent of all insured institutions.

MDIs also have much lower levels of noninterest income and higher levels of loan-loss provisions than the rest of the industry. Noninterest income represents only 19.5 percent of net operating revenue (net interest income plus total noninterest income) at minority institutions, compared to an industry average of 42.7 percent. Loan loss provisions represent 15.3 percent of net operating revenue for MDIs, versus an industry average of 6.7 percent.

In addition, asset-quality indicators are less favorable at MDIs than for the industry as a whole. For the first six months of 2007, the net charge-off rate for minority-owned institutions was 0.56 percent, compared to an industry average of 0.47 percent. For the same period, 2.03 percent of all loans at minority-owned institutions were noncurrent (90 days or more past due or in nonaccrual status), compared to 0.90 percent for all insured institutions.

The difference in profitability can result from many factors. MDIs, like most community banks, often must compete with larger financial institutions for both business and a talented work force. They also may find it difficult to diversify their geographical and credit risk exposures due to their commitment to serve local communities and ethnic populations. In addition, some minority institutions are challenged with operating in an economically depressed market area. The disparities in profitability and other key measures between MDIs and other financial institutions demonstrate the continuing importance of the FIRREA goals to encourage and preserve MDIs.

**Statutory Requirements**

FIRREA requires the Secretary of the Treasury to consult with the Director of the Office of Thrift Supervision and the Chairperson of the FDIC Board of Directors to determine the best methods for preserving and encouraging minority[1] ownership of depository institutions. Specifically, Section 308 of FIRREA sets the following goals:

[1] "Minority" as defined by Section 308 of FIRREA means any "Black American, Asian American, Hispanic American, or Native American."

- Preserve the number of minority depository institutions;
- Preserve the minority character in cases of merger or acquisition;
- Provide technical assistance to prevent insolvency of institutions not now insolvent;
- Promote and encourage the creation of new depository institutions; and
- Provide for training, technical assistance, and education programs.

Section 308 defines an MDI as any federally insured depository institution where 51 percent or more of the voting stock is owned by minority individuals. In addition to the statutory ownership test, the FDIC considers an institution an MDI if a majority of the Board of Directors are minority individuals and the community that the institution serves is predominantly minority. This expanded definition is based on the public comments received by the FDIC when we revised our MDI Policy Statement in 2002.

**FDIC's Minority Deposit Institution Program**

In order to achieve the goals of section 308, the FDIC first adopted a specific policy statement[2] regarding minority ownership of financial institutions in 1990. This policy statement was updated in 2002. The 2002 Policy Statement[3] has six main components designed to preserve and encourage minority ownership of depository institutions. First, it clarifies the definition of MDIs for inclusion in the FDIC's program. Second, it establishes the organizational structure for the MDI program and the resources the FDIC will dedicate to the program. Third, it describes the technical assistance the

[2] The FDIC adopted the *Policy Statement on Encouragement and Preservation of Minority Ownership of Financial Institutions* on April 3, 1990.
[3] The FDIC adopted the *Policy Statement Regarding Minority Depository Institutions* on April 9, 2002.

FDIC will make available to MDIs. Fourth, it describes the training and educational programs that the FDIC will make available. Fifth, it describes how the FDIC will address failing minority institutions during the resolution process. Finally, the policy statement describes how the FDIC will report on the activities and results of the MDI program.

*Identification of Minority Depository Institutions*

To ensure that all MDIs are able to take advantage of the benefits of the FDIC's voluntary MDI program, we maintain a list of federally insured MDIs. Because an institution can be an MDI based on the composition of its Board of Directors and the community served, not just its ownership, institutions that are not already identified as MDIs can request to be designated as such by certifying that they meet the FDIC's definition. During the examination process, FDIC examiners review the appropriateness of an institution's inclusion on the list. In addition, FDIC regional offices monitor changes to the list while processing deposit insurance applications, merger applications, change of control notices, or failures of MDIs. The FDIC works closely with other federal regulatory agencies to ensure that institutions not directly supervised by the FDIC also are accurately captured on the list. In addition to routinely posting the most recent quarterly list of MDI's on our public website, FDIC staff periodically provides the list to relevant trade associations and seek input regarding its accuracy.

*Organizational Structure*

The FDIC devotes considerable resources to our MDI program. As described in the 2002 Policy Statement, the MDI program is staffed by a national coordinator in Washington, D.C., and coordinators in the FDIC's six regional and two area offices. The national coordinator regularly contacts minority bank trade associations about participation in events and other issues, coordinates with other agencies, maintains FDIC's list of all insured banks that are considered to be minority under the FDIC definition, and compiles quarterly reports for the FDIC Chairman. The FDIC regional MDI coordinators are responsible for arranging annual regional MDI outreach events and serving as the primary contact for MDI matters within their region. The efforts of these key MDI coordinators are supplemented by the active participation of employees across the FDIC. For example, employees are detailed as needed to assist with the development of specific MDI programs and conferences.

In addition, hundreds of examiners interact with MDIs and receive specialized training each year. The FDIC has specific programs in place to educate bank examiners and sensitize them to the unique issues often found in MDIs. Since many minority depository institutions were established to serve an otherwise under-served market, certain measures, such as high profitability, may not be as essential to the organizers and shareholders of the institution. Instead, community development and improving consumer services may drive many of the organization's decisions. While the level of an institution's earnings is important, the FDIC has issued guidance to its examiners that the evaluation of earnings performance should also consider the trend and stability of earnings, the ability to provide for adequate capital, the quality and sources of earnings, and the adequacy of budgeting systems. FDIC examiners also have been advised not to place undue emphasis on peer analysis when evaluating minority depository institutions due to their unique characteristics. However, examiners can create custom peer groups to possibly provide a more meaningful comparison of similarly situated institutions.

Additionally, many minority depository institutions may have difficulty raising deposits from their local market. These institutions may use Federal Home Loan Bank borrowings and other wholesale funding sources to offset the shortage of local deposits. In addition, minority depository institutions sometimes attract large, out-of-area deposits from institutional investors. There are potential risks associated with the use of such "noncore" funds, and examiners are advised to continue to review every institution's program for identifying, measuring, monitoring, and controlling those risks. These funds can be volatile, but when prudently managed can be beneficial to banks. In addition, many of the "noncore" funds obtained by minority depository institutions may actually be rather stable due to the investor's desire to advance the institution's objectives.

To ensure examiners remain knowledgeable of the unique challenges faced by MDIs and the appropriate examination treatment, representatives from the MDI community are invited to participate in all FDIC regional training conferences. MDI bankers are invited to speak to the audience of examiners on their experiences and their institutions' unique operating environments.

The benefits of facilitating communication and maintaining a dialog with MDIs, as well as actively engaging in partnerships with trade groups and associations serving MDIs, was evident in the aftermath of Hurricane Katrina. In cooperation with the National Community Investment Fund, the National Bankers Association and ShoreBank Corporation, FDIC staff provided support for three African-American owned institutions in the New Orleans area. The FDIC and its co-sponsors actively provided assistance for these MDIs, which had been severely affected by the storm, via grants, capital injections, emergency staffing and other assistance. As part of this effort, a group of non-minority institutions provided $22 million in deposit pledges and $120,000 in direct cash donations to assist these MDIs in meeting the housing and other needs of their employees. Our various support measures enabled the MDIs in the hurricane ravaged area to play a crucial role in helping the recovery efforts in their communities.

*Technical Assistance*

Under the MDI program, the FDIC actively reaches out to minority banks to offer technical assistance available beyond the normal examination and supervisory process. The FDIC requires its regional coordinators to ensure that examination case managers contact minority banks 90 to 120 days after an examination to offer technical assistance and a follow up visit by FDIC examiners to assist in addressing any problem areas that were identified during the examination. The purpose of these offers of technical assistance are solely to assist MDI management in understanding and implementing recommendations from the prior examination, not to identify additional problems. In addition, MDIs are strongly encouraged to contact the FDIC for any assistance needed regarding bank regulations, FDIC policies, and examination procedures, even if there are no specific issues arising from the examination process.

The FDIC routinely provides guidance or clarification on matters arising from the application process, as well as other guidance in technical areas such as compliance with the various consumer protection laws, financial reporting, and accounting. Further, FDIC regional staff contact the minority banks they supervise at least once a year, or more frequently if appropriate, to offer to have a member of our regional management meet with banks' board of directors and to familiarize the institutions with the FDIC's initiatives.

In addition to working with individual banks, the FDIC is exploring ways to increase usage of technical assistance by groups of MDIs. For example, in the next few weeks, the FDIC, in partnership with the Puerto Rico Bankers Association, will host the First Annual Puerto Rico Bankers Association/FDIC Compliance School. The program will cover a vast range of complex compliance issues, including Bank Secrecy Act/Anti-Money Laundering compliance, and how these issues directly impact Puerto Rico's banking industry.

*Training and Educational Programs*

The 2002 Policy Statement also outlines the training and assistance programs available under the MDI program. The FDIC sponsors and hosts events in support of minority banks in coordination the other federal and state bank regulators. These events include national conferences, regional forums and conferences, and Minority Bankers Roundtables.

For example, this past summer, the FDIC and the other federal banking agencies sponsored the second annual "Minority Depository Institutions National Conference" in Miami, Florida. This three day conference was attended by 170 people, including minority bankers, members of MDI-related trade organizations, representatives from the GAO, congressional staff, and regulatory personnel. This annual conference is devoted to topics relevant to MDIs, as well as specific issues identified by MDIs as important to their business success.

The topics at the conference were selected based on feedback obtained during last year's national conference and from direct input from the MDI community and trade associations. The sessions addressed some of the most significant issues facing MIDs today, including exploring methods to promote economic inclusion by expanding access to the financial mainstream, strategies for reaching underserved communities by advancing sustainable homeownership, mitigating losses on Community Development Financial Institutions (CDFI) Fund programs, and on ways for raising deposits and debt and equity capital at the holding company level. The break-out sessions covered technical matters in the areas of information technology, BSA, compliance and CRA, and accounting issues associated with assessing the adequacy of the loan loss reserve. The post-conference surveys indicated that the participants found the sessions relevant and beneficial.

The FDIC also hosts facilitated group discussion sessions throughout the country. The intent of these sessions is to provide a regular forum in which MDIs can meet with other MDIs and their regulatory agencies to discuss issues facing the industry. The sessions serve as an opportunity to identify issues of interest that impact the minority banking community, and recommended avenues that would make the MDI outreach efforts more effective. In 2007, the FDIC will have hosted five of these regional events.

Since 2004, the FDIC has conducted a Minority Bankers Roundtable Series as part of our annual regional outreach program. These events provide another opportunity for the MDI community to voice views and concerns on current regulatory and supervisory issues. Additionally, at these roundtables, FDIC regional personnel seek feedback as to how the FDIC can be more effective in expanding its minority banker outreach initiatives, including seeking suggestions on ways to better market our technical assistance resources. We also investigate possible collaborative projects between the FDIC and the minority banking community.

Additional training events available to MDIs have included the FDIC's Director's College Program, the FDIC's Money Smart Program, a Non-banked/Under-banked Summit, and the Alliance for Economic Inclusion. The Alliance for Economic Inclusion was started in 2006 to establish broad-based coalitions of financial institutions, community-based organizations and other partners in nine markets across the country to bring all unbanked and underserved populations into the financial mainstream. The FDIC also formed a partnership with the CDFI Fund to promote a new outreach effort to help more insured institutions, particularly MDIs, apply for various CDFI programs.

*Failing Institutions*

The 2002 Policy Statement also addresses the circumstances surrounding the failure and resolution of an MDI. The FDIC has developed policies for failing banks that are consistent with FIRREA's requirement that the agency work to preserve the minority character of minority banks in cases of mergers and acquisitions. The FDIC maintains a list of qualified minority banks or minority investors that are invited to bid on the assets of troubled minority banks that are expected to fail. From April 1998 to June, 2002, there were six minority-owned institutions that failed, four of which were acquired by other minority-owned institutions, thus preserving the minority ownership. None have failed since 2002.

*Reporting*

The regional MDI coordinators provide quarterly reports regarding their activities to the national coordinator. These reports address outreach activities, including training and technical assistance provided during the quarter, as well as significant outreach and training events planned in the future. The national coordinator compiles the results of the regional offices' reports and submits a quarterly summary to the FDIC's Chairman. The FDIC's *Annual Report* also highlights our efforts to preserve and promote minority ownership of depository institutions (see Appendix).

The FDIC also maintains a website to promote the MDI program. The website, located at http://www.fdic.gov/regulations/resources/minority/index.html, describes the FDIC's MDI program and current initiatives. It provides contact information for each of the regional coordinators, a list of MDIs, training and conference information, and useful resources for MDIs, such as links to deposit insurance coverage and assessment calculators. The website also prompts users to submit comments or suggestions regarding ways to improve the MDI program.

The FDIC activities detailed above are designed to implement the elements of the 2002 Policy Statement and achieve the goals of Section 308 of FIRREA. The program is extensive and seeks to provide MDIs with information and assistance that is relevant and useful. As part of every program, the FDIC invites feedback from MDI participants on ways to improve existing programs or needs for new programs. The Committee's invitation letter asks whether the FDIC will commit to issuing an annual report to Congress on our efforts to implement section 308. Currently, the FDIC includes a report on our efforts in our overall *Annual Report*. The FDIC is proud of our many activities in this area and would welcome an opportunity to provide Congress with a separate annual report on our actions.

**The October 2006 GAO Report**

In October 2006, the GAO issued a report entitled, *Minority Banks: Regulators Need to Better Assess Effectiveness of Support Efforts*. Although the report noted that the FDIC "currently has the most comprehensive program to support minority banks and leads an interagency group that coordinates such efforts," it recommended improvements that could be made by all of the agencies to assess the effectiveness of their programs and ensure results. While the GAO noted that "banks regulated by the FDIC, which had the most extensive program and outreach efforts were more positive about their agency's efforts than banks regulated by other agencies," we were concerned to learn that only about half of our institutions rated our efforts as good or very good and that only about a third of the institutions took advantage of the technical assistance we provide.

The GAO recommended that the FDIC, along with the other banking regulators should regularly review the effectiveness of our minority bank support efforts and related regulatory activities and, as appropriate, assess the need to make changes necessary to better serve such institutions. Specifically, the GAO recommended periodic surveys of such institutions to determine how they view our minority support efforts and related activities and the development of outcome-oriented performance measures to assess the progress of our efforts in relation to our program goals.

Feedback from MDIs is important in implementing programs that most effectively meet the needs of this segment of the industry. To implement this GAO recommendation, the FDIC has developed an annual survey that will be sent to all MDIs starting at the end of 2007. All MDIs, including those not supervised by the FDIC, will be able to rate the effectiveness of the FDIC-sponsored conferences and roundtables. In addition, FDIC-supervised institutions will be able to provide feedback on the FDIC's outreach efforts and technical and general assistance. The FDIC will use the overall findings of this survey to assess our effectiveness in reaching out to the MDI community and to make improvements, where necessary. Further, the survey results and comments will be helpful in developing the agenda for the 2008 Interagency National Minority Depository Institutions Conference.

The GAO also recommended that the FDIC and other banking agencies establish specific outcome oriented performance measures for their MDI programs. For 2007, the FDIC developed nine performance measures that are specifically tracked quarterly by senior management of the FDIC. The successful achievement of the objectives is factored into executive management compensation each year.

The specific outcomes related to these performance measures include continuing or improving past programs such as the National MDI conference and improving the utility and access of the MDI website. In addition, the performance measures include the development of new programs, such as the FDIC's "University Partnerships" program. This pilot program provides an opportunity for the FDIC to forge partnerships with colleges, universities, and MDIs to jointly promote financial literacy at the college level and be a resource to the academic community, particularly historically black colleges and universities (HBCUs) or schools that have a significant minority population. The FDIC also meets annually with the Deans of all HBCU Business Schools to, among other things, make them aware of the FDIC's efforts at improving financial literacy at the college level.

In addition to the specific performance measures, the FDIC will continue to adhere to a number of core strategies, including the following:

- Take a more pro-active approach in following up with minority banks that utilize the FDIC's technical assistance program to see if our assistance contributed to the desired result;
- Undertake a review of our technical assistance program to ascertain ways to achieve a higher minority bank usage rate;
- Improve our efforts to educate examiners on minority bank characteristics and issues;
- Develop informative and effective outreach programs to the minority bank community; and
- Continue to look for new ways to partner with and promote the financial health of the minority institutions and the communities they serve.

**Conclusion**

In summary, minority institutions face many challenges. They must compete with larger financial institutions for both business and a talented work force. They may find it difficult to diversify their geographical and credit risk exposures due to their commitment to serve local communities and ethnic populations. Some minority institutions are also challenged with operating in an economically depressed market area. Despite these challenges, minority institutions are demonstrating their commitment to providing entrepreneurial capital, promoting economic revitalization, and creating jobs.

The FDIC recognizes the vital role that minority institutions play in the economic development of communities throughout the United States and is dedicated to the goals of preserving, promoting, and encouraging the creation of minority depository institutions.

This concludes my statement. I will be happy to answer questions.

**Appendix**

**2006 Annual Report** (page 21-22)

**Minority Depository Institutions**

The FDIC has long recognized the importance of minority depository institutions in promoting the economic viability of minority and underserved communities. As a reflection of the FDIC's commitment to minority depository institutions, the FDIC issued a "Policy Statement Regarding Minority Depository Institutions" on April 9, 2002. The policy statement implements an outreach program designed to preserve and encourage minority ownership of financial institutions.

Since the adoption of that policy statement, the FDIC has maintained contact with various minority depository institution trade associations; met periodically with the other federal banking regulators to discuss initiatives underway at the FDIC and identify opportunities for the federal banking agencies to work together to assist minority institutions; held regional outreach meetings And five Minority Bankers Roundtables; and extended offers to each FDIC-supervised minority depository institution to meet and discuss issues of interest.

In August 2006, the FDIC hosted the first "National Minority Depository Institution Conference" in Miami, FL, with attendance from more than 100 bankers; representatives from the Office of the Comptroller of the Currency, the Federal Reserve and the Office of Thrift Supervision; and several private-sector and industry trade group representatives. The conference addressed topics of interest to the minority banking community, with particular emphasis on a shared commitment to expanding financial services available to minority and underserved communities; developing coalitions to improve minority community infrastructures by partnering with organizations such as NeighborWorks® America; and fostering a better understanding by the regulatory community of the unique challenges minority depository institutions face. A second national conference is planned for 2007.

During 2006, an FDIC task force also assisted three minority institutions headquartered in New Orleans, LA, and severely impacted by Hurricane Katrina in improving their liquidity by securing $22 million in deposit pledges from Utah-based ILCs. The ILCs also provided $123,000 in direct cash donations to assist these institutions in meeting the housing and other needs of their employees.

**2005 Annual Report** (page15)

**Minority-Depository Institutions**

The FDIC has long recognized the importance of minority depository institutions and their importance in promoting the economic viability of minority and under-served communities. As a reflection of the FDIC's commitment to minority depository institutions, on April 9, 2002, the FDIC issued a Policy Statement Regarding Minority Depository Institutions. The policy, which can be found at www.fdic.gov/ regulations/resources/index.html, implements an outreach program designed to preserve and encourage minority ownership of financial institutions.

Since the adoption of the policy by the FDIC Board of Directors, the program's National Coordinator has maintained contact with various minority depository institution trade associations, and has met periodically with the other Federal banking regulators to discuss the initiatives underway at the FDIC, and to identify opportunities where the agencies might work together to assist minority institutions. All of the FDIC's six DSC Regions have held annual Minority Depository Institution Outreach Programs, made annual contact with each FDIC-supervised minority depository institution, and offered to make return visits to these institutions following the examination process.

During 2004, the FDIC created the Minority Bankers' Roundtable series, a forum designed primarily to explore partnerships between the minority depository institutions community and the FDIC. During 2005, there were six sessions held in: Nashville, Tennessee; New York, New York; Houston, Texas; Santa Monica, California; Atlanta, Georgia; and San Juan, Puerto Rico. The Minority Banker Roundtable and annual regional outreach events will continue in 2006.

In 2005, the FDIC also provided technical assistance, training and educational programs and held interagency forums to address the unique challenges faced by minority depository institutions. Training and educational programs for minority depository institutions included the FDIC's Director's College Program and the FDIC's Money Smart Program. The FDIC co-hosted Regional Forums with the America's Community Bankers Association and the National Bankers Association in 2005. FDIC also participated in and/or co- sponsored conferences with America's Community Bankers, National Bankers Association, National Association of Chinese American Bankers, Western Independent Bankers, and Puerto Rico Bankers Association.

FDIC also supported the preservation of minority depository institutions in its response to Hurricane Katrina. The FDIC Task Force on Minority Community Banking and Non-Branch Banking met with representatives from the Utah industrial loan company industry to facilitate their assistance to minority depository institutions in the Gulf Coast region affected by Hurricane Katrina. The result has been that as of year-end 2005, the Utah industrial loans companies have pledged more than $18 million in deposits and over $120,000 in direct grants to this effort. Efforts similar to these made by this FDIC task force will continue in 2006.

FDIC will continue its minority depository institution programs in 2006.

**2004 Annual Report**

No specific citations.

**2003 Annual Report**

No specific citations.

**2002 Annual Report** (page 14)

**Minority Depository Institutions**

The FDIC has historically taken steps to preserve and encourage minority ownership of insured financial institutions. On April 9, 2002, the FDIC Board adopted a new policy statement related to minority depository institutions. The new policy statement reflects changes in certain regulations and expands the FDIC's Minority Depository Institutions Program. Enhancements to the program include increased communication with minority depository institutions, better coordination with trade associations that represent minority depository institutions, better defined roles for a national program coordinator and regional coordinators, and more opportunities for institutions to request technical assistance.

For Release Upon Delivery
10:00 a.m., October 30, 2007

**TESTIMONY OF**

**JOHN G. WALSH**

**CHIEF OF STAFF AND PUBLIC AFFAIRS**

**OFFICE OF THE COMPTROLLER OF THE CURRENCY**

**BEFORE THE**

**SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS**

**OF THE**

**COMMITTEE ON FINANCIAL SERVICES**

**OF THE**

**U.S. HOUSE OF REPRESENTATIVES**

**OCTOBER 30, 2007**

Statement Required by 12 U.S.C. § 250:

The views expressed herein are those of the Office of the Comptroller of the Currency and do not necessarily represent the views of the President.

## INTRODUCTION

Chairman Watt, Ranking Member Miller, and members of the Subcommittee, I am John Walsh, Chief of Staff and Public Affairs, at the Office of the Comptroller of the Currency (OCC). I am pleased to appear before you today to discuss the Government Accountability Office's (GAO) October 2006 report entitled *Minority Banks: Regulators Need to Better Assess Effectiveness of Support Efforts* and the actions that the OCC has taken to address the recommendations of that report regarding the preservation and promotion of minority-owned financial institutions.

My testimony begins by discussing the importance of minority banks in the U.S. financial system. It continues with an examination of the OCC's *Policy Statement on Minority-Owned National Banks* (policy statement) and updates the progress the OCC has made since the issuance of the GAO report in supporting minority-owned institutions (MOI), improving minority bank outreach, and establishing training and performance measures to implement and evaluate these efforts. I then highlight other current initiatives to create incentives for minority bank investments and partnerships.

### I. Importance of Minority Banks in the U.S. Financial System

The OCC recognizes that minority-owned banks are important community and national assets. Minority banks have long performed a vital role in the American financial system by serving the market needs of their local communities.

Many minority-owned national banks operate in places where larger banks do not have a presence. They also provide credit and personalized service to customers in ways that larger banks often do not. However, like all community banks, minority banks must ensure that they are able to survive and prosper while focusing on the needs of their communities.

Generally speaking, while minority banks pride themselves on customer service, this focus can lead to higher transaction costs and higher operating costs, which tends to lower their return on average assets (ROAA). And due to their smaller asset size, they are often unable to generate the economies of scale that larger institutions have, or to spread these higher operating costs over a larger asset base.

Because many minority-owned institutions serve a customer base that offers strong potential for growth, prospects for these banks are positive. The minority population in the United States is increasing rapidly. Hispanics accounted for more than half of the growth in the U.S. population in the past decade. Eight U.S. metropolitan areas now have immigrant populations of one million or more, and rural areas are also experiencing more racial and ethnic diversity. The buying power of minority populations is expected to reach $1.7 trillion by 2010, more than triple its 1990 level of $454 billion.

The growth in their markets is a good sign for the future of minority banks. Between year-end 2003 and mid-year 2007, the assets of all minority-owned banks increased by approximately 56 percent, and the assets of OCC supervised minority banks increased by nearly 66 percent, paralleling the 66.5 percent increase of all national banks during this period.

## II. OCC's Policy Statement on Minority-Owned National Banks

Recognizing their unique operating characteristics, the OCC issued a *Policy Statement on Minority-Owned Banks* in 2001[1]. The policy statement acknowledged the OCC's commitment to encourage their success, consistent with the goal of Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA).

While the OCC is not subject to Section 308, we have voluntarily taken the initiative to support and reach out to minority banks as required by its provisions. We are committed to complying with Section 308 and would have no objection to that being made explicit.

### OCC Support for Minority-Owned Institutions

In support of the principles of FIRREA's Section 308, the OCC created a new senior advisor position in 2004 to serve as OCC's focal point for minority banking issues. Since then, it has made additional staff support available for our outreach to minority-owned institutions. In addition to our supervisory field staff, the OCC has nine district community affairs officers (DCAOs) located throughout the country supporting the OCC's minority bank outreach. Our DCAOs are available to provide MOIs with tailored, one-on-one consultations to help identify community development opportunities and resources to support economic development in the markets they serve. The DCAOs report directly to a Washington-based Deputy Comptroller for Community Affairs.

[1] The OCC adopted the *Policy Statement on Minority-Owned National Banks* on March 28, 2001. (http://www.occ.gov/cdd/moi_policy.pdf)

But the agency's most important and frequent contacts with MOIs occur in the course of our normal supervisory activities. The OCC, like other bank regulators, uses prudential supervision of its banks to implement banking law and regulation. Prudential supervision is a process by which the bank supervisor establishes regulations to control risk-taking and observance of the law, and then monitors the bank to ensure its safety and soundness and compliance.

OCC's examiners communicate regularly with minority bankers to identify risks and discuss methods of addressing supervisory issues. With that insight, our examiners are better able to understand both the products being offered and the bank's risk management controls. In keeping with norms for all community banks, MOIs receive an on-site examination once every 12-18 months, at which time a risk-based assessment of their activities and financial condition is undertaken.

A Portfolio Manager is assigned to each bank and has ongoing responsibility for understanding the bank's unique characteristics and circumstances. In addition to coordinating our supervisory activities for the bank, the Portfolio Manager contacts the bank at least quarterly and undertakes a review of bank performance, while also serving as the primary contact for technical assistance targeted to their individual needs. An additional resource is the local Assistant Deputy Comptroller who typically has a well-established ongoing relationship with each bank under his or her supervision.

Recognizing that many minority banks, like other community banks, may benefit from enhanced guidance in complying with the array of regulatory requirements that confront community banks, OCC examiners often provide information as part of our supervisory process that goes beyond the scope of the formal examination. The policy statement reiterates OCC's longstanding practice of making available experts in each district to provide guidance on subjects such as credit and asset management, consumer compliance, capital markets, bank information systems, legal issues, and economic conditions.

The policy statement also formalizes the OCC's policy of assigning examiners to minority-owned banks with the expertise and background needed to properly evaluate the products and services offered by those institutions and the markets and environments in which they operate. We have found the success of our supervisory relationships with minority-owned banks, as with most community banks, to be highly dependent upon the quality of the relationship between the bank and its examiners.

For this reason, we make every effort to ensure that our examiners are familiar with the minority bank's unique attributes, sometimes assigning staff from more distant offices or making special arrangements to ensure continuity of oversight. And just as we promote cultural diversity and awareness in the OCC's own workforce, our supervisory efforts are most effective when our examiners understand the cultures of the minority-owned banks that they supervise.

The policy statement outlined several initiatives to further the ability of minority banks to prosper and meet the needs of their communities.

- **Formation and Retention of Minority-Owned Banks** – The OCC provides technical assistance to organizing groups interested in entering the national banking system. Our supervisory process also extends resources, to the extent allowable by confidentiality rules, to those existing minority-owned banks facing financial difficulties or involved in a merger or acquisition that challenges their minority character.

Materials geared to minority bank organizers and investors are available to facilitate the development of national bank applications or charter amendments.[2] Assistance is also provided to organizers of minority institutions through pre-filing meetings and comments on draft applications, and we are actively exploring how to improve our bank chartering processes, including consideration of aspects of the process of significance to organizers of minority banks.

- **Capital for Minority-Owned Banks** – Majority institutions are permitted to provide capital and other resources to minority-owned banks. Banks and their holding companies have the ability to acquire voting and non-voting interests in minority institutions under several different statutory authorities. Many of these investments in MOIs may be eligible for positive consideration by the investing majority bank under the Community Reinvestment Act.

The policy statement also provides for consultation assistance to national banks in structuring public welfare investments authorized under Part 24 of the OCC's regulations, and participating in the Treasury Department's CDFI Fund financial and capital assistance programs. The OCC has also issued guidance and broadly distributed a newsletter[3] clarifying the circumstances under which national banks may make investments in minority institutions under Part 24 and other legal authorities.

- **Information, Education, and Outreach for Minority-Owned National Banks** – The OCC participates extensively in outreach meetings and conferences throughout the country to discuss supervisory and industry issues for all of its banks. And we have

[2] For examples, see "A Guide to Tribal Ownership of a National Bank," September 2002. (http://www.occ.gov/corpbook/tribal/tribalp.pdf) and the October 3, 2001 OCC memo on establishing a community development bank. (http://www.occ.gov/cdd/cdbank.pdf)
[3] *Community Developments* online, Winter 2006-2007. (http://www.occ.gov/cdd/winter06/cd/index.html)

expanded these efforts to better reach our minority banks. For example, a member of senior management in our Houston field office recently participated in the World Chinese Banking Amity Conference and delivered a presentation focusing on effective credit risk management systems. Likewise, we recently conducted outreach to organizers of Native American-owned banks at two conferences sponsored by the Bureau of Indian Affairs.

The OCC offers an array of training through our banker education programs, which include training sessions open to all community bankers across the country, including minority-owned institutions. Topics of particular interest to minority banks, such as the Bank Secrecy Act, anti-money laundering, and other compliance regulations are prominent in these programs.

The OCC's public website includes an external outreach and minority affairs page to assist those interested in investing in, or partnering with, minority-owned banks. The OCC will also be adding a minority banking page to National BankNet, OCC's website available only to subscribing national banks.

New National BankNet features will include a minority bank peer group for our Comparative Analysis Reporting system, news of interest to minority bankers, announcements of training and conference opportunities, instructions on how to request technical assistance, discussions of legislative and regulatory issues, and identification of the types of investments that are eligible for Community Reinvestment Act (CRA) consideration.

- **Developing Relationships with Trade Associations –** We also have begun to hold regular meetings with trade associations representing minority bankers. Earlier this year, OCC staff met with a trade association representing Hispanic bankers in Chicago. In addition, Comptroller Dugan and I have spoken at the National Bankers Association's (NBA) legislative and annual meetings for the past two years. Earlier this summer, our head of community bank supervision and I met with the Board of Directors of the NBA to discuss a range of legislative and regulatory issues on the group's policy agenda. We appreciate the information developed in this process. It has helped to focus our minority bank supervision program on certain issues facing minority banks.

- **Examination Support for Minority-Owned Banks** – The OCC provides extensive oversight and assistance to all community banks through our ongoing supervisory efforts. By understanding each bank's specific characteristics and environment, we develop an individualized supervisory strategy for each bank we examine. Strong relationships between local examiners and national banks are the foundation of this approach, and are particularly critical for minority banks. OCC's examiners communicate regularly with minority bankers to identify risks and discuss methods of addressing supervisory issues. With that insight, our examiners are better able to understand both the products being offered and the bank's risk management controls.

The OCC makes concerted efforts to provide continuity in the staff who examine minority-owned national banks. Further, assignments of examiners to minority-owned banks take into account the expertise and background needed to properly evaluate the products and services offered by those institutions and the markets and environments in which they operate.

## III. Government Accountability Office Report on Minority Banks

In October 2006, the GAO issued its report entitled *Minority Banks: Regulators Need to Better Assess Effectiveness of Support Efforts*, which recommended that the regulators consider:

- conducting periodic surveys of such institutions to determine how they view minority support efforts and related activities, and/or
- developing outcome-oriented performance measures to assess the progress of their efforts in relation to program goals.

The report also noted that as part of these regular program assessments, the agencies may wish to focus on the usage and effectiveness of technical assistance services, and level of training provided to their examiners regarding minority banks and their operating environments. In addition, the report noted that increased interagency coordination in the implementation of these recommendations may be appropriate to help ensure consistency.

Comptroller of the Currency John C. Dugan wrote in a September 14, 2006 letter to the GAO that the OCC agreed that an assessment of the effectiveness of our efforts was useful and detailed a number of initiatives that the OCC was pursuing consistent with our *Policy Statement on Minority-Owned National Banks* and the goals of FIRREA. Since the report's issuance, the OCC has taken several additional steps to address the report's findings. I would like to update the Committee today on our progress.

**Minority Bank National Bank Initiative**

Building on its policy statement, the OCC launched its Minority-Owned National Bank Initiative (also referred to as the MOI Initiative) in FY 2007. The MOI Initiative, led by the OCC's Midsize/Community Bank Supervision, functions to fulfill the OCC's objective of developing, implementing, and operating a Minority-Owned National Bank Program that, through high quality bank supervision and outreach, will enable minority-owned national banks to:

- operate in a safe and sound manner,
- serve the banking needs of their communities, and
- preserve their minority-owned status.

Through the MOI Initiative, the OCC plans to meet this objective by:

- assessing the needs of minority-owned national banks,
- assessing current agency efforts to meet the needs of minority-owned national banks,
- utilizing internally and externally generated information to focus OCC's supervisory training and outreach activities, and
- reassessing activities and performance to adjust to the changing needs of minority-owned national banks.

Immediately after the GAO report was issued, the OCC established a working group to develop an action plan to address the report's key findings. In January 2007, the OCC began a formal internal review to develop strategies for enhancing minority bank supervision, tracking our progress, and assessing the impact of these initiatives.

Our initial step was to conduct an internal survey of the Assistant Deputy Comptrollers and Portfolio Managers who directly supervise minority national banks. These surveys have now been completed, and we are in the process of cataloguing best practices that can be shared with other supervisory offices, as well as determining where refinements to our supervisory process can be made.

Preliminary analysis of the survey results reveals some common themes in our examiners' responses. The first is a confirmation of our historical experience that no two minority-owned institutions are exactly alike. While having many common traits, each minority-owned national bank operates with a unique set of challenges and circumstances.

Examiners believe the OCC's fundamental approach of developing a customized supervisory strategy for every national bank is especially critical for minority-owned national banks. Whether it is by conducting more frequent visits to provide technical guidance to management, or ensuring that there is continuity and a high level of knowledge and expertise in the staff assigned to examinations, our supervisory offices recognize the differences among the minority institutions we supervise and have tailored supervisory strategies to each bank's specific needs.

The second phase of our review began in August 2007, when we distributed a survey directly to our minority-owned national banks, focusing on how we can make our education, outreach, and technical assistance efforts more useful and effective. The survey also provides minority bankers an opportunity to comment on the OCC's supervisory policies and guidance and allows them to state whether our examiners have the training and guidance necessary to effectively supervise their bank.

We are now in the process of collecting and analyzing the survey responses from all of the minority-owned banks we supervise. We are following up with each bank to ensure that we obtain full participation and accurate results.

I can report that the early returns from the surveys underscore the importance of specialized supervision for minority-owned banks, and encourage even greater emphasis on understanding these banks' specific needs. For example, we have heard from minority-owned banks serving the Native American market that while our examiners have general knowledge of lending issues related to sovereign immunity, more training can be done in this area.

Additionally, we have heard from minority-owned banks serving markets with large immigrant populations regarding how we supervise their Bank Secrecy Act, anti-money laundering, and other compliance activities. They suggest that we offer additional training in order for them to properly meet regulatory requirements.

When the results of both surveys are tallied, we plan to conduct a series of focus groups to further explore and address issues affecting our minority banks, the effectiveness of OCC's supervisory policies and guidance, and the on-going training needs of both our examiners and our minority institutions.

The GAO also recommended that regulators consider developing outcome-oriented performance measures to assess the progress of their efforts in relation to program goals. We recognize the benefit of establishing ways to measure our progress toward accomplishing the goals of our MOI program. It can be difficult to build metrics around efforts that are not easily quantifiable – such as MOI satisfaction with the assistance they receive from our agency. However, we have attempted to do so by supplementing the open-ended questions that are the foundation of our MOI survey with a series of questions that can be answered on a scale from "strongly agree" to "strongly disagree." The responses to these questions will establish a baseline against which we can, in the future, measure our progress in meeting our objective of supporting MOIs.

## IV. Other Initiatives to Create Incentives for Minority Bank Investments and Partnerships

### Interagency Outreach

Following the recommendations in the GAO report, the Interagency Minority Institutions Working Group has become more active. The Working Group sponsored national conferences for minority bankers in 2006 and 2007, and is currently planning another conference for 2008.

These conferences were well attended by a broad cross section of minority institutions and involved high level participation by all of the banking agencies. I spoke on a panel of bank regulators at this year's minority institutions conference and was impressed by the level of engagement by bankers and supervisors, which bodes well for future progress on areas of concern identified in the GAO report.

### Promoting Majority Bank Partnership Opportunities

Earlier this year, OCC dedicated an edition of its *Community Developments* newsletter that highlights opportunities for investments and other partnerships between majority and minority institutions and the availability of technical assistance from the

OCC to facilitate such activities[4]. The newsletter featured four minority-owned national banks of different ethnic profiles, looked at the different ethnic markets they serve, and highlighted regulatory and capital challenges these institutions face. In addition, the newsletter outlined how the public welfare investment authority under Part 24 of the OCC's regulations and other authorities could be used to make investments in minority institutions, and how such activities would be treated in the majority bank's CRA examination.

- **Community Reinvestment Act Incentives** – Another effort in support of minority-owned institutions taken in response to the GAO report is the issuance of proposed interagency guidance regarding how majority institutions may engage in and receive positive CRA consideration for activities conducted with minority institutions. On July 11, 2007, the four federal banking regulatory agencies requested comments on nine new "Questions and Answers" regarding community reinvestment.

One proposed "Question and Answer" addresses an issue identified in the GAO report regarding the circumstances under which a partnering majority bank will receive positive consideration for investments, loans and other ventures with a minority bank, even if the minority bank is not in the majority institution's CRA assessment area, or broader statewide or regional area. It seeks to clarify how the regulators are to take into account these activities in the context of the general CRA standard of evaluating a bank's performance in its own assessment area (or broader regional area that includes the bank's assessment area) so that positive CRA consideration is afforded to a majority bank that partners with a minority bank anywhere in the country. In addition, we will seek to clarify when CRA consideration will be given for majority banks that donate bank

[4]"*Community Developments* online, Winter 2006-2007. (http://www.occ.gov/cdd/winter06/cd/index.html)

branches in minority communities, or make them available rent free or on favorable terms, to minority-owned institutions.

- **Expanding the Public Welfare Investment Authority** –The OCC has been actively supporting legislation which would facilitate majority bank investments in minority banks as well as the MOIs' own investments in community development projects. Last year, the OCC proposed legislation which would broaden the public welfare investment authority of national banks under the National Bank Act that allows banks to make investments that support urban revitalization and rural development. As I mentioned earlier, Part 24 of the OCC's regulations implements this law and is one of several legal authorities that can be used by majority banks to make equity investments in minority-owned institutions under certain conditions. I am pleased to report that last year's regulatory relief bill adopted our proposed amendment to increase the permitted level of public welfare investments from 10 to 15 percent of an investing bank's capital and surplus.

However, the amendment also narrowed the range of allowable direct public welfare investments, permitting those in activities that primarily benefit low- and moderate-income individuals or areas but eliminating worthwhile direct investment activities in certain middle income areas that had previously been permissible. These middle income communities include rural underserved or distressed communities, designated disaster areas, and government-targeted revitalization areas.

The House moved quickly to return the public welfare investment authority to the standard that was in effect prior to the passage of the regulatory relief bill, passing H.R. 1066, the "Depository Institution Community Development Investments Enhancement

Act" unanimously. This legislation, which is supported by all the bank regulatory agencies and many trade and community groups, is now pending before the Senate Banking Committee.

## V. Conclusion

In conclusion, let me restate the OCC's commitment to work with minority-owned banks and to provide the technical assistance and supervisory oversight they need to be successful. We will continue our efforts to preserve the number and character of minority banks and promote and encourage the creation of new minority-owned institutions, through our own efforts and in coordination with the other federal banking regulators.

In this regard, the GAO report has proven a useful call to action. We value its purpose and have begun to implement its recommendations as I've described. We have reached out to ensure that our minority-owned institutions are aware of the technical assistance available from the OCC, and we will continue to encourage them to request this assistance and provide us with feedback on its effectiveness.

Through all these efforts, the OCC continues to look forward to helping our nation's minority-owned banking institutions operate in a safe and sound manner, serve the needs of their communities, and preserve their minority-owned status.

Thank you, Mr. Chairman. I would be pleased to answer your questions.

Embargoed until
October 30, 2007, at 10:00 am

Statement of

Montrice Godard Yakimov
Managing Director for Compliance and Consumer Protection
Office of Thrift Supervision

concerning

# Preserving and Expanding Minority Banks

before the

Subcommittee on Oversight and Investigations
of the
Committee on Financial Services
United States House of Representatives

October 30, 2007

Office of Thrift Supervision
Department of the Treasury
1700 G Street, N.W.
Washington, DC 20552
202-906-6288

**Testimony on Preserving and Expanding Minority Banks before the Subcommittee on Oversight and Investigations of the House Financial Services Committee by Montrice Godard Yakimov, Managing Director, Compliance and Consumer Protection, Office of Thrift Supervision**

**October 30, 2007**

## I. Introduction

Good morning, Chairman Watt, Ranking Member Miller and Members of the Subcommittee. Thank you for the opportunity to discuss the Office of Thrift Supervision's (OTS's) program on preserving and expanding minority ownership of savings associations. In particular, you have inquired about OTS efforts to address the recommendations contained in the Government Accountability Office (GAO) report entitled "Minority Banks: Regulators Need to Better Assess Effectiveness of Support Efforts." Pursuant to the GAO report, the OTS has implemented the recommendations and initiated steps to develop specific implementation strategies. I will describe these steps and others you asked us to address in this testimony.

The OTS currently supervises 22 minority-owned institutions. Of these, 12 are African-American, 7 are Asian-American, and 3 are Hispanic-American. As of June 30, 2007, these 22 institutions held total assets of approximately $8.8 billion. The average asset size of minority-owned savings associations regulated by the OTS is approximately $404 million.

The OTS has long recognized the important role minority-owned institutions serve in fostering economic vitality and access to capital, particularly in minority and low-income communities. Minority banks and thrifts have carried out a mission of service that, in many institutions, has endured over many generations. Minority institutions have played a critical role in providing home mortgage loans and loans to small businesses. For generations, minority institutions have financed churches and other community-based institutions that have served as important anchors in countless neighborhoods. And, notably in today's mortgage market, minority banks and thrifts have acted to provide fair access to financial services in underserved urban and rural communities.

Congress has also recognized this important role for the OTS by setting goals to support minority banks and thrifts. This is in recognition of the legacy that minority institutions have in meeting the financial services needs of underserved communities –

and because of their prospects for meeting the financial services needs of future generations in low-income and minority neighborhoods. The OTS is a strong advocate of minority-owned institutions and we appreciate the special recognition of our role in supporting and promoting minority ownership thrifts.

The OTS's commitment to ensuring the viability of minority-owned savings associations is rooted in the 1970s, many years prior to the passage of FIRREA. Agency programs supporting technical assistance to minority institutions that began with the OTS's predecessor, the Federal Home Loan Bank Board (FHLBB), have endured and expanded since then. And we have undertaken a number of recent initiatives to ensure that our implementation strategies are responsive to each of the recommendations that the GAO made to the federal banking regulators in its October 2006 report.

**II. Identification of Minority-Owned Institutions**

Pursuant to section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), a minority depository institution is either a stock institution in which socially and economically disadvantaged individuals have at least 51 percent ownership, or a mutual institution in which the majority of the Board of Directors, account holders, and the community that it services is predominantly minority. For purposes of this provision, Congress defined the term "minority" to mean Black American, Native American, Hispanic American, or Asian American.

The OTS has an annual verification process through self-certification by previously identified minority-owned institutions to establish their continued inclusion in the OTS program. OTS staff identify additional candidates for the program through the examination and application process. And OTS-regulated institutions may petition the agency for inclusion in the program if their circumstances change to qualify them as a minority-owned institution.

During the past ten years, the number of OTS supervised minority owned savings associations has declined, generally commensurate with the level of consolidation in the banking industry. For example, since November 1, 1995, eighteen minority savings associations regulated by the OTS either merged with another minority institution or converted to a charter regulated by another banking agency. However, during this time, only two OTS supervised minority thrifts closed or were liquidated.

**III. The OTS Minority Owned Institution Program**

The foundation of the OTS's current Minority Owned Institution Program is based upon section 308 of FIRREA which calls for the OTS to consult with the Secretary of the Treasury and the Federal Deposit Insurance Corporation (FDIC) on methods to best achieve the following goals:

- Preserve the present number of minority depository institutions;
- Preserve their minority character in cases involving merger or acquisition of a minority depository institution by using general preference guidelines;
- Provide technical assistance to prevent insolvency of minority-owned institutions not now insolvent;
- Promote and encourage creation of new minority depository institutions; and
- Provide for training, technical assistance, and educational programs.

Consistent with the requirements of FIRREA, the OTS's Minority Owned Financial Institutions (MOFI) Program is designed to provide technical assistance and other support to minority-owned savings associations to promote and preserve these associations, many of which primarily serve minority and lower income communities. We have more than 30 staff members who directly support the 22 minority institutions the OTS currently supervises. These OTS staff include senior managers and directors, who focus on providing regular and routine support under the MOFI program. Pursuant to the GAO recommendations, two staff members were added to our program since 2006.

OTS Compliance and Consumer Protection staff in Washington are primarily responsible for monitoring the OTS MOFI Program and for carrying out the annual certification process for minority-owned savings associations regulated by the OTS. Regional supervisory staff are primarily responsible for providing technical assistance and support when requested by minority-owned institutions, including increased outreach and involvement by OTS Regional Directors.

The OTS currently has five staff members, including two senior managers, assigned to the MOFI program in our headquarters office in Washington DC. In our regions, four Community Affairs Liaisons also play a significant role by reaching out periodically to the minority institutions we regulate, and playing a coordinating role with other senior Directors or managers within the region to address questions or needs a minority thrift may have. Each minority thrift also has an OTS regional case manager who periodically communicates with the minority thrifts within their supervision case load. For example, some managers contact the minority institutions in their case load quarterly to discuss operations and to keep abreast of events at the institution.

OTS regional staff also provide information on special initiatives and programs that may benefit minority-owned institutions. For example, regional staff inform minority institution management of workshops, training forums, and conferences that offer information and other resources that can contribute to building the capacity and strength of the institution and provide networking opportunities.

In 2006, the OTS also launched a dedicated space on our website to minority-owned institutions that includes information on partnership and training opportunities. The OTS website space aggregates relevant information, including a summary of resources that may be useful to minority-owned institutions. It includes the OTS's policy statement on minority-owned institutions, a current list of minority institutions displayed by region, and a series of links to partnership opportunities, programs, conferences, seminars, workshops, and related information that we believe minority-owned institutions will find helpful. Interested users may access this information by clicking on the "Consumer and Community" tab on the OTS Web site at www.ots.treas.gov.

Additionally, staff in each region encourage minority-owned savings associations to become involved in government programs that enhance their ability to serve the needs of their communities, while also strengthening their institutional strength and capacity. The Department of the Treasury's Community Development Financial Institutions Fund (CDFI) Program and its Minority Bank Deposit Program are two examples. The OTS also offers technical assistance to minority groups or individuals considering investment in the thrift industry. Such investments can serve to strengthen existing institutions, create new minority owned institutions, and/or help to provide more financial services to underserved minority communities.

**IV. OTS Response to GAO Recommendations**

In its October 2006 recommendations, the GAO suggested that the OTS and other federal banking regulators review the effectiveness of minority-owned institution support programs through such means as regularly surveying minority banks and establishing outcome oriented performance measures. The GAO also called upon the banking agencies to assess minority banks' overall view of the banking agency's minority-owned institutions and general support efforts including technical assistance.

The coverage ratio of OTS staff to OTS-regulated minority institutions in our MOFI program enables frequent institution contact. Thus, we embraced the GAO recommendation to increase regular staff contact and instituted a survey to see how we could do more to implement this recommendation. We will use the results of this survey to continue to enhance the MOFI program and to improve the ongoing, periodic outreach that OTS examiners, managers and directors have with the minority institutions we supervise. We will continue to monitor the effectiveness of the MOFI program with the goal of improving our overall support and supervision of minority-owned institutions.

In addition to the minority-owned institutions survey, the OTS will begin to seek input from minority institutions as a part of our regular annual questionnaire, the Thrift Satisfaction Survey. The OTS launched this questionnaire several years ago to obtain feedback from savings associations on their impression of the effectiveness and quality of OTS supervision and areas where the OTS could improve. Beginning in 2008, the OTS will ask respondents to identify whether or not they are minority institutions so we can track the performance of our MOFI program.

In addition to using these surveys to obtain input on the performance of the MOFI program, over the past year the OTS has increased our contact with executives from minority institutions. During these meetings, we have asked about how we can improve our program and provide better support to minority-owned institutions. For example, just recently the OTS Director Reich hosted a meeting of thrift institution executives at the 2007 Interagency Minority Institution Conference in Miami.

Director Reich has also spoken at the National Bankers Association that past two years seeking their advice and input on what the OTS can do to improve our minority-owned institutions program. And he has attended various meetings with CEOs of minority-owned thrifts coordinated by OTS regional directors across the country. We have received various suggestions during these sessions including recommendations that the OTS should:

- Continue to hold annual regional outreach forums for minority-owned institutions in partnership with the FDIC and other federal banking agencies;
- Recognize and award minority-owned institutions at such forums for positive accomplishments reflected in their operations and community outreach efforts;
- Exercise flexibility to the extent possible in interpreting regulations to provide the widest latitude to enable minority thrifts to lend within their communities;
- Continue to encourage OTS field managers and case managers to provide periodic input on ways minority-owned thrifts can continue to strengthen their capital, earnings, compliance and performance in other areas reviewed during examinations; and
- Continue to focus on ways to address the challenges of and reduce regulatory burden.

The OTS staff is incorporating these and other suggestions in the 2008 strategic plan for our MOFI program. Our strategic plan, which will be finalized by year end, is consistent with the GAO recommendation to develop outcome-oriented performance measures to assess the progress of our efforts in relation to minority-owned institution program goals.

With respect to training measures the OTS has taken to ensure our examiners fully understand the operating environment and challenges that minority institutions face in serving their communities, the OTS has developed a training that will be piloted next month during an Advanced Compliance Examiner School here in Washington. OTS examiners and assistant directors will attend the session. The training will include an overview of the OTS Policy Statement on Minority-Owned Financial Institutions, including the objectives of the program. We will also discuss some of the challenges minority-owned institutions face in their operations by reviewing their supervisory ratings, financial condition and related information. The training will include an analysis of trends in the minority institutions we supervise and related information.

## V. Other Assistance to Minority-Owned Institutions

To supplement our outreach to minority institutions, in January of 2007 the OTS developed an outreach plan to participate in conferences widely attended by minority bankers, investors, policy makers or entrepreneurs across the country. We have designed an OTS booth that is used at these conferences to provide information about the value and benefits of a thrift charter, our expanded MOFI program, how to apply for a thrift charter and the types of technical assistance that the OTS provides to minority-owned institutions.

In connection with OTS minority institution outreach efforts, we took the booth to the Interagency Conference for Minority Depository Institutions in 2006 and 2007. In September 2007, OTS staff were available at the booth for the annual legislative conference of the Congressional Black Caucus. We also displayed our booth at the National Council of La Raza's annual conference in July of this year. Additionally, we displayed the booth at the Multicultural Business Symposium in early August sponsored by the Black Business Professionals and Entrepreneurs. These outreach efforts support our policy objective (and FIRREA requirements) to promote the formation of new minority owned thrifts.

In addition to supporting the minority institutions we supervise through increased staffing, engaging our institutions to provide feedback on our minority institution program, and expanding awareness of that program to promote the creation of new minority institutions, we have worked with the other federal banking agencies through the regulatory process to provide rules and guidance that support minority ownership and the operations of minority-owned institutions.

For example, the OTS realigned its CRA regulations with those of the other federal banking agencies. The OTS has also joined the other banking regulators in proposing guidance to permit non-minority owned institutions to receive favorable CRA consideration for investing in minority-owned institutions to help meet the credit needs of the communities they serve. Most significantly, minority-owned institutions need not be located in, and the activities need not benefit, the assessment area(s) of the non-minority owned institution, or even be located in the same state or region as the assessment area(s). This is an important addition to the interagency CRA guidance and is consistent with the statutory intent of CRA to promote investments in and support for minority-owned institutions.

Upon request, the OTS provides a list of minority-owned institutions to potential investors or other parties interested in establishing business relationships with minority-owned institutions. When the final CRA guidance is adopted, the OTS will explore additional ways to encourage investment activities by majority-owned thrifts in minority-owned thrift institutions with the goal, of course, of preserving minority ownership and the provision of financial services to minority and low-income communities.

**VI. Conclusion**

The OTS recognizes and supports the critical mission and role that minority institutions have played in the United States. Since the 1970s, before there was a legislative requirement to do so, the OTS (through its predecessor, the FHLBB) has provided technical assistance to the minority institutions we regulate. Since the passage of FIRREA, the OTS has summarized numerous activities and initiatives to support minority institutions through an annual report to Congress.

With respect to the goal of supporting the creation of newly chartered minority institutions, we are pleased that another application is currently in process. We have also worked to preserve the minority character of existing minority-owned institutions. During the past year, the OTS also increased staff, outreach, surveys to assess our performance, resources available through our website, and support of the creation of new minority-owned institutions.

Notwithstanding these efforts, we believe we can do more. Development of our minority institution strategic plan is underway as we look to the future and additional steps we can take to further strengthen the OTS MOFI program. In addition, we welcome greater clarity from Congress on the expectations for our minority institution program, including a consistent statutory directive applicable to all of the federal banking agencies. We would also appreciate your thoughts and assistance in pursuing and achieving all of the goals of the OTS MOFI program. We welcome suggestions and recommendations of the Members of the Subcommittee on what we can do better as well as what else we should be doing in this program.

Thank you, Mr. Chairman, for highlighting this important issue. We look forward to working together with you, Ranking Member Miller, the Members of the Subcommittee and our fellow banking regulators to support a bright future for minority-owned financial institutions.

**Preservation of Minority Savings Institutions**

**Report to Congress for 2003
Pursuant to Sections 301 and 308 of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA)**

**Prepared by the Office of Thrift Supervision**

This report to Congress summarizes activities conducted by the Office of Thrift Supervision (OTS) during 2003 in support of Sections 301 and 308 of FIRREA, Preserving Minority Ownership of Minority Financial Institutions.

OTS supervised 26 minority owned savings associations at December 31, 2003 (see Attachment A). The total population of minority owned savings associations declined by four in 2003. Although five minority owned associations were acquired by or merged with other financial institutions in 2003, this number was offset by a Hispanic owned savings association that certified as a minority owned institution. Mergers and acquisitions included:

- A multi-ethnic owned savings association acquired by a national bank.
- An African American association acquired by a state-chartered institution.
- An African American association acquired by a non S&L holding company.
- An African American owned association that merged with another OTS-regulated minority owned savings association.
- An Asian owned institution that merged with another OTS-regulated, non-minority owned savings association.

The distribution of minority owned savings associations by race and OTS Region as of 12/31/03 was:

| | Northeast | Southeast | Midwest | West | Total |
|---|---|---|---|---|---|
| African American | 2 | 7 | 2 | 1 | 12 |
| Asian American | 2 | 0 | 0 | 7 | 9 |
| Hispanic American | 1 | 2 | 1 | 1 | 5 |
| Total[1] | 5 | 9 | 3 | 9 | 26 |

(Note: Asian American includes Pacific Islanders and Hispanic American includes Puerto Ricans and Cubans.)

[1] This total includes two African American associations that sold their stock publicly in 1995 and are currently unable to document minority ownership under the established criteria in Section 308. Both associations continue to serve minority neighborhoods, with primarily minority management. Consequently, OTS continues to consider them minority associations for purposes of this program.

**Overall Condition of Minority Owned Institutions**

At the end of December 2003, minority owned savings associations held $7.6 billion in total assets, a $700 million increase from year-end 2002. Total assets of minority owned associations represented 0.7% of total assets of all OTS-regulated savings associations as of December 31, 2003.

Based on categories established by the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), all 26 minority owned savings associations (100%) were "well capitalized" at the end of 2003. For the thrift industry as a whole, 99% of associations were "well capitalized" at year-end 2003.

Twenty (80%) of the minority owned associations had CAMELS ratings of 1 or 2, the highest CAMELS ratings, at the end of 2003 compared with 92% for the entire thrift industry. Four minority owned associations (15%) had a 3 rating. One minority owned association was rated 4.

**Minority Owned Institutions Program**

The Office of Thrift Supervision's Minority Owned Institutions Program is designed to provide technical assistance and other support to minority owned savings associations in an effort to promote and preserve these associations, many of which serve principally minority and lower income communities (see Attachment B).

During 2003, OTS continued its focus on minority owned savings associations with special emphasis and attention on those that warranted monitoring and corrective action, and increased technical assistance.

At the Washington level, Supervision Policy staff was primarily responsible for monitoring OTS's Minority Owned Institutions Program and for carrying out the certification process to certify all minority owned savings associations regulated by OTS. Regional supervisory staff is primarily responsible for providing technical assistance and support when requested with increased outreach involvement by the Regional Directors.

OTS encourages minority owned savings associations to become involved in government programs that enhance their ability to effectively serve the needs of the communities, while also strengthening their capacity as an institution. The Department of the Treasury's Community Development Financial Institutions Fund (CDFI) Program and its Minority Bank Deposit Program are two examples.

Three minority owned associations regulated by OTS have successfully received CDFI certification as Community Development Financial Institutions (see Attachment C). CDFI certification allows these associations to apply for funding and technical assistance from the CDFI Fund. Some of these associations have applied for and received monetary awards from the CDFI Fund.

The Department of Treasury's Minority Bank Deposit Program (MBDP) is a voluntary program that encourages federal agencies, state and local governments and the private sector to use MBDP participants as depositories and financial agents. Qualified MBDP participants are certified by the Financial Management Service (FMS), a bureau of the Department of the Treasury, and included on a program roster distributed nationally to federal program agencies, contractors and other public and private sector organizations. Of the 26 minority owned institutions regulated by OTS, 19 are MBDP certified and have received deposits and/or serve as financial agents (see Attachment D).

**Significant Outreach Activities**

Ongoing outreach, beyond the customary examination and supervisory process, is carried out by the regional Supervisory and Community Affairs staff and supported by the Washington office. Regional staff is in periodic contact with the associations and make certain they are informed of special initiatives and programs that may benefit them.

**OTS Washington Office**

The federal banking agencies began an interagency effort in March 2001 to determine the reasons minority owned institutions have declined over the years and examine some of the common challenges faced by many of these institutions. As a follow-up to this effort, the federal banking agencies held regional interagency forums in 2002 with minority owned institutions in Dallas, Atlanta and New York. In 2003, the federal banking agencies held additional regional interagency forums in San Francisco, New Orleans, and Atlanta. The purpose of the forums was to further discuss challenges facing these institutions, best practices for dealing with those challenges and ways in which the regulatory agencies could better assist minority owned institutions. OTS continues to explore ways that the agency can play a role in helping to preserve and promote the long-term viability of minority owned institutions.

**Northeast Region**

Minority owned savings associations located in the Northeast Region decreased to five during this reporting period. To promote OTS's Minority Owned Institutions Program, the Regional Director sent letters to the chief executives of the six minority owned institutions in the program at the beginning of 2003. The letter emphasized OTS's commitment to promote and preserve their institutions and provide technical assistance and educational programs to enhance their operations. The Regional Director also offered to meet with management and the board of directors at each association to discuss issues of interest.

The Northeast Region staff provided technical and other assistance to the minority owned savings associations in the region as needed. For instance, Northeast Region staff made substantial efforts to find a strategic banking partner to infuse capital and management into an association with significant operating problems. With the guidance of OTS staff, the association merged into another OTS-regulated minority owned savings association. Subsequently, the Northeast Region provided the acquiring association with support and assistance and introduced them to important and potential sources of business in the Northeast market.

Northeast region staff spent significant amounts of time assisting an Asian owned association. An erroneous newspaper report about embezzlement by a branch manager resulted in panic withdrawals by depositors. The Northeast Regional Director made significant efforts to provide liquidity for the association, assured depositors about the strong condition of the association, and participated in press conferences to assure the general public about the stability of the association. OTS's efforts to preserve and stabilize this minority owned savings association helped stem the run on deposits and also contributed to the quick recovery of some of the funds withdrawn from the bank during the period of panic withdrawals

**Southeast Region**

At December 31, 2003, the Southeast Region regulated nine minority owned savings associations. Only four of the nine associations have assets in excess of $100 million. Generally, the minority owned savings associations in the Southeast Region did well in 2003. As a group, they are slightly larger, better capitalized, and received better examination ratings than they did in 2002.

During 2003, the Southeast Region lost three minority owned associations. One, a healthy association in Birmingham, merged with an Atlanta-based minority owned bank. A troubled minority owned savings association in Maryland merged with a minority owned national bank. An independent investor acquired the third, a small, troubled association in Florida. Although the association lost its minority owned designation, it continues to serve the minority community that it served for many years.

The Southeast Region staff provided technical and other assistance to the minority owned savings associations in the region as appropriate in each circumstance. Several minority owned associations seek additional capital or acceptable merger partners. In all of these instances, OTS staff works with the association towards a resolution that retains the minority ownership and character of the association. Personnel from both the Southeast and Northeast Regions provided a significant amount of assistance to the two minority owned savings associations, highlighted earlier in this report, that successfully merged in 2003.

Southeast region staff provided information and assistance to the directors and senior management of other institutions in their attempts to recapitalize and/or find acquirers. Specifically, staff conducted background checks on investors and firms, inquired within the region and other regions for information concerning potential acquirers, met with possible investors, including groups currently seeking to acquire and control at least two associations. Staff also provided other information where appropriate to association management and potential acquirers. Staff assisted in the review of several proposed business plans submitted by prospective suitors and provided feedback on those where appropriate.

In addition to staff's efforts to assist institutions to find appropriate merger partners, they provided technical assistance to improve books and records and internal controls to generally improve the condition of several thrifts.

The Southeast Region anticipates that the number of minority owned savings associations in the region will further decline by one or two institutions in 2004 due to mergers and acquisitions. In at least one instance, we anticipate continued minority ownership of the resulting entity.

**Midwest Region**

The Midwest Region supervised three minority owned savings associations at year-end. Throughout 2003, Midwest Region Supervisory and Community Affairs staff contacted, advised and assisted the management and boards of directors at these savings associations.

The Community Affairs staff assisted a Hispanic-owned savings association in procuring its designation as an OTS-regulated minority owned institution. The association received its certification in August 2003. OTS staff apprised the association of various federal programs that could benefit its operations such as the Department of the Treasury Minority Bank Deposit Program and the Community Development Financial Institutions Fund. Midwest Region staff made several on-site visits to this savings association to meet with management and the board of directors. Staff also provided resources to help improve the board of directors, including information on how to find new directors, director fiduciary responsibilities, and how to develop effective policies and procedures.

Midwest Region staff also made on-site visits to other minority owned associations in its region, providing feedback on one institution's IT conversion, and advice to another association on new lines of business that it entered into during 2003. Management of the latter association participated in quarterly Bankers Roundtable meetings and Regional Director outreach meetings. Representatives of this association also attended the FDIC sponsored Minority Depository Institution Training Seminar held in New Orleans in July 2003.

**West Region**

Minority owned institutions in the West Region decreased to nine during the reporting period.

The West Region emphasized its long-standing policy to provide technical assistance to savings associations upon request. West Region staff communicated this policy at town meetings, training workshops, industry trade group seminars, and during on-site visits and examinations. Staff met with various minority investors that expressed an interest in starting a de novo thrift or acquiring an existing minority owned association. Staff communicated with a number of minority owned associations on topics such as business strategies, local economic conditions, upcoming CRA examinations, CRA lending, investments, and services, financial education programs, elder financial abuse, and federal tax benefit programs for low-income individuals and families. West Region staff provided minority owned associations with a list of best practices and strategies for responsibly serving emerging and underserved markets.

In addition, the West Region advised minority owned associations of a number of training events during 2003 to help strengthen their operations and build capacity. For example, six OTS-regulated minority owned savings associations participated in the Minority Depository Institutions Conference co-hosted by the FDIC and Western

Independent Bankers (WIB) in San Francisco. Attendees learned about various programs targeted at minority depository institutions at this one-day conference. The Office of the Comptroller of the Currency (OCC) extended invitations to southern California-based minority owned savings associations to participate in the Minority Small Business Financing Conference co-sponsored by OCC and the U.S. Department of Commerce Minority Business Development Agency. West Region staff also notified associations about CRA roundtables in their area.

**Technical Assistance**

In 2003, OTS provided one-on-one technical assistance to a majority of the minority owned institutions it regulates. The degree of technical assistance varied by institution depending upon the issues identified as a result of the examination process, as a follow-up to outreach activities by the regional Community Affairs staff, or as requested by the institution. As in previous years, the types of assistance provided to savings associations covered multiple technical areas. Moreover, OTS supervisory staffs, and periodically Regional Directors, attended board of directors meetings to report and discuss the progress of corrective measures, to provide guidance, and to solicit feedback.

Examples of technical assistance provided to OTS regulated minority owned savings associations during 2003 included the following:

- OTS staff provided specialized training to an association's TFR preparer in an effort to improve this association's financial reports. Staff provided technical assistance during the year to other minority owned associations relating to TFR preparation and/or regulatory interpretations.

- Staff assisted associations with legal guidance on topics relating to conflicts of interest issues and loans-to-one borrower regulations.

- Regional staff made follow-up visits to several savings associations attending the Minority Depository Institutions Conference co-hosted by the FDIC to discuss OTS' s Minority Owned Institutions and Community Affairs programs, in addition to other topics.

- Regional staff periodically met with the board of directors of an association to learn about the status of their marketing efforts to sell the association. They encouraged the board of directors to develop a more aggressive sales strategy or a viable long-term business strategy for the association.

- Staff provided information relating to an institution's upcoming CRA examination and following up on issues identified during the examination.

- Field staff conducted quarterly calls with an association to discuss financial performance and examination issues in addition to providing guidance and assistance to the institution's mutual holding company. Staff also maintained communication with other associations during the year to ensure they addressed examination concerns.

- Regional staff continues to explore ways to deal with OTS policy on merger conversions to assist a small, mutual minority owned association merge with the local minority owned bank.

- OTS staff provided assistance to a number of small savings associations in establishing a mentoring relationship or forming an alliance with larger institutions. The smaller associations received assistance and guidance from the larger institutions in a variety of ways such as finding more profitable lines of business, broadening product offerings in certain markets, expertise in Internet banking operations, interest rate risk management, branch operations training, use of the mentor's ATM network, and operational guidance to resolve problems. Staff also provided an association with contact information to a larger institution that originates, buys, and sells multi-family mortgage loans.

**Attachment A**

**OFFICE OF THRIFT SUPERVISION**
**MINORITY OWNED THRIFTS (MOIs)**

**NATIONAL TOTAL: 26**
African American – 12
Asian/Pacific Islander American – 9
Hispanic American – 5
Multi-ethnic (African American & Asian/Pacific Islander American) -0
Native American – 0

**WEST REGION**
**Regional Total: 9**
African American – 1
Asian/Pacific Islander American – 7
Hispanic American - 1

| | |
|---|---|
| **Territorial Savings and Loan Association**<br>1132 Bishop Street, 22nd Floor<br>Honolulu, Hawaii 96813<br>(Stock) | Asian/Pacific Islander American |
| **BankPacific**<br>151 Aspinall Ave.<br>Hagatna, Guam 96910<br>(Stock) | Asian/Pacific Islander American |
| **Universal Bank**<br>3455 Nogales St., 2nd Fl.<br>West Covina, CA 91792<br>(Stock) | Asian/Pacific Islander American |
| **Broadway Federal Bank, F.S.B.**<br>4800 Wilshire Boulevard<br>Los Angeles, CA 90010<br>(Stock) | African American |
| **Trust Bank**<br>638 S. Atlantic Blvd.<br>Monterey Park, CA 91754-3856<br>(Stock) | Asian/Pacific Islander American |
| **Standard Savings Bank, FSB**<br>228 West Garvey Ave.<br>Monterey Park, CA 91754-1603<br>(Stock) | Asian/Pacific Islander American |

| | |
|---|---|
| **Pan American Bank, FSB**<br>1801 El Camino Real<br>Burlingame, CA 94010<br>(Stock) | Hispanic American |
| **Gateway Bank, FSB**<br>919 Clement Street<br>San Francisco, CA 94118<br>(Stock) | Asian/Pacific Islander American |
| **Sincere Federal Savings Bank**<br>1355 Stockton St.<br>San Francisco, CA 94133-3822<br>(Stock) | Asian/Pacific Islander American |

**MIDWEST REGION**
**Regional Total: 3**
African American – 2
Hispanic American - 1

| | |
|---|---|
| **Columbia Savings and Loan Association**<br>2000 West Fond du Lac Avenue<br>Milwaukee, WI 53205-1122<br>(Mutual) | African American |
| **Dryades Savings Bank, FSB**<br>231 Carondelet St., Suite 200<br>New Orleans, LA 70130-3002<br>(Stock) | African American |
| **Greater South Texas Bank, FSB**<br>131 East Rice Street<br>Falfurrias, TX 78355<br>(Stock) | Hispanic American |

**SOUTHEAST REGION**
**Regional Total: 9**
African American – 7
Hispanic American – 2

| | |
|---|---|
| **Advance Bank**<br>4801 Seton Drive<br>Baltimore, MD 21215<br>(Mutual) | African American |

| | |
|---|---|
| **Gulf Federal Bank, a FSB**<br>901 Springhill Ave.<br>Mobile, Alabama 36604<br>(Stock) | African American |
| **Home Federal Savings Bank**<br>9108 Woodward Ave.<br>Detroit, MI 48202-1612<br>(Mutual) | African American |
| **Ideal Federal Savings Bank**<br>1629 Druid Hill Ave.<br>Baltimore, MD 21217<br>(Mutual) | African American |
| **Illinois Service Federal Savings & Loan Assoc.**<br>4619 South Martin Luther King Jr. Drive<br>Chicago, IL 60653-4107<br>(Mutual) | African American |
| **Imperial Savings & Loan Association**<br>211 Fayette St.<br>Martinsville, VA 24112<br>(Mutual) | African American |
| **Independence Federal Savings Bank**<br>1229 Connecticut Avenue, N.W.<br>Washington, DC 20036-2601<br>(Stock) | African American |
| **Interamerican Bank, FSB**<br>9190 Coral Way<br>Miami, FL 33165<br>(Stock) | Hispanic American |
| **UniBank**<br>701 Brickell Avenue<br>Miami, FL 33131<br>(Stock) | Hispanic American |

**NORTHEAST REGION**
**Regional Total: 5**
African American - 2
Asian American -2
Hispanic American - 1

| | |
|---|---|
| **Abacus Federal Savings Bank**<br>6 Bowery<br>New York, NY 10013-5101<br>(Stock) | Asian/Pacific Islander American |

| | |
|---|---|
| **Carver Federal Savings Bank**<br>75 West 125th St.<br>New York, NY 10027<br>(Stock) | African American |
| **Chinatown Federal Savings Bank**<br>109 Bowery<br>New York, NY 10002<br>(Stock) | Asian/Pacific Islander American |
| **Dwelling House Savings & Loan Association**<br>501 Herron Ave.<br>Pittsburgh, Pennsylvania 15219-4609<br>(Mutual) | African American |
| **Ponce De Leon Federal Savings Bank**<br>2244 Westchester Ave.<br>Bronx, NY 10462<br>(Mutual) | Hispanic American |

**Attachment B**

**Office of Thrift Supervision**
**Policy Statement on Minority Owned Thrift Institutions**

This statement outlines Office of Thrift Supervision (OTS) policies regarding minority owned thrift institutions for the guidance of those institutions, OTS staff, and other parties with an interest in the thrift industry.

OTS recognizes the important role of minority owned thrift institutions in furthering the economic viability of minority and low-income communities. Minority owned thrift institutions can also provide significant assistance to regulators and other government agencies in their efforts to evaluate and address the needs of those communities for financial services. OTS and its predecessor have had an ongoing minority association technical assistance function since the 1970's.

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), Section 308, reinforces our commitment. FIRREA identifies the following goals that form the basis of OTS' Minority Owned Thrift Institutions Program:

- Preserve the present number of minority depository institutions;
- Preserve their minority character in cases involving merger or acquisition of a minority depository institution by using general preference guidelines;
- Provide technical assistance to prevent insolvency of institutions not now insolvent;
- Promote and encourage creation of new minority depository institutions; and
- Provide for training, technical assistance, and educational programs.

As defined in FIRREA, the term "minority" includes Black American, Native American, Hispanic American, or Asian American. A minority owned institution is either a stock institution in which minorities have at least 51 percent ownership, or a mutual institution in which the majority of the Board of Directors, account holders, and the community that it services is predominantly minority. OTS will consider mutual institutions, in which the majority of the Board of Directors and the Chief Executive Officer are women, to be minority institutions for the purposes of this program. OTS will also consider publicly traded stock companies, that have the minority characteristics described for mutual institutions, to be minority owned for purposes of this program.

**Identification of Minority Owned Institutions**

OTS will annually certify previously identified minority owned institutions to establish their continued inclusion in the program. OTS staff will identify additional candidates for the program through the examination and application processes.

On a case-by-case basis, OTS will make a list of minority owned thrifts available to potential investors or other parties interested in establishing business relationships with minority owned institutions.

### Technical Assistance

OTS will provide technical assistance, especially in the supervision and application processes, in order to preserve the number, character and financial health of minority owned institutions. Requests for technical assistance should be directed to the Community Affairs Liaison in the appropriate OTS regional office, who will coordinate with regional supervisory staff.

OTS will also monitor the financial condition of minority owned thrift institutions on an ongoing basis, and will share compilations of non-confidential financial data with minority owned institutions to help them monitor their performance. Through this process, OTS will identify those minority owned institutions that might benefit from a program of increased support and technical assistance, such as mentoring arrangements with other thrifts. Minority owned institutions that are in a generally sound condition, but which may be experiencing operating difficulties in one, or a few areas, would fall into this category. Often, problems can be attributed to limited resources due to the institutions' small size. Participation in the program, by both minority owned institutions and potential mentors, is voluntary.

For those minority owned institutions experiencing more serious operating problems, appropriate OTS regional staff, such as the Field Manager and/or Assistant Regional Director, will consult and work with executive management of the institution to determine, and implement, a course of corrective action.

### Resolution of Supervisory Cases

In resolving supervisory cases involving minority owned thrifts, OTS will consider and evaluate possible solutions that would, consistent with the safety and soundness of the institution, maintain the institution's minority identity. In evaluating solutions, OTS will also consider the composition of the community being served by the institution. OTS will consider the minority status of an institution in its recommendations to the Federal Deposit Insurance Corporation, consistent with the agency's underlying responsibility for the safety and soundness of the thrift industry.

### Outreach to Minority Owned Thrifts

Whenever possible, OTS staff will participate in seminars, conferences and workshops directed to minority owned institution audiences. Requests for such participation should be directed to the Community Affairs Liaisons in the regional offices.

Additionally, OTS will maintain contact with minority owned institutions, outside the more customary examination and supervision process. At a minimum, the Regional Director will offer to meet with each thrift's Board of Directors, at least annually, to discuss issues of mutual interest, such as economic trends, regulatory or legislative developments, and types of assistance that OTS can provide to minority owned institutions.

OTS will support minority owned thrift institutions in their efforts to offer products and services to their minority and non-minority customers. To support minority owned thrifts in providing credit and other needed financial services to their communities, OTS will work with appropriate parties to measure and track performance. In addition, the regional Community Affairs Liaisons will contact each minority owned thrift, at least annually, to discuss community development activities and opportunities.

**Potential Investors**

The agency will also offer technical assistance to minority groups or individuals considering investments in the thrift industry, in order to strengthen existing institutions, create new minority owned institutions, or help to service minority communities. OTS encourages such interest and will work with minority organizations to provide information and to identify potential minority investors. If minority investors are interested in acquiring thrift institutions held by the Federal Deposit Insurance Corporation as conservator or receiver, OTS will work with them to process expeditiously the preliminary regulatory approval that is required prior to submission of a bid.

Approved:

JE Gilleran

James E. Gilleran, Director

June 21, 2002

**Attachment C**

**OTS Regulated Minority Owned Institutions**
**Certified as Community Development Financial Institutions (CDFI)**

**Carver Federal Savings Bank**
75 West 125$^{th}$ Street
New York, NY 10027

**Dryades Savings Bank, F.S.B.**
231 Carondelet Street
Suite 200
New Orleans, LA 70130-3002

**Illinois Service Federal Savings and Loan Association**
4619 South Martin Luther King, Jr. Drive
Chicago, IL 60653-4107

**Attachment D**

**OTS Minority Owned Financial Institutions**
**Participating in the Treasury Department's Minority Bank Deposit Program**

| | |
|---|---|
| **West Region** | |
| BankPacific | Hagatna, Guam |
| Gateway Bank, FSB | San Francisco, CA |
| Pan American Bank, FSB | Burlingame, CA |
| Sincere Federal Savings Bank | San Francisco, CA |
| Trust Bank | Monterey Park, CA |
| Universal Bank | West Covina, CA |
| **Midwest Region** | |
| Dryades Savings Bank, FSB | New Orleans, LA |
| **Southeast Region** | |
| Advance Bank | Baltimore, MD |
| Gulf Federal Bank, a FSB | Mobile, AL |
| Home Federal Savings Bank | Detroit, MI |
| Ideal Federal Savings Bank | Baltimore, MD |
| Illinois Service Federal Savings & Loan Assoc. | Chicago, IL |
| Imperial Savings & Loan Association | Martinsville, VA |
| Independence Federal Savings Bank | Washington, DC |
| Interamerican Bank, FSB | Miami, FL |
| UniBank | Pinecrest, FL |
| **Northeast Region** | |
| Carver Federal Savings Bank | New York, NY |
| Chinatown Federal Savings Bank | New York, NY |
| Ponce de Leon Federal Savings Bank | Bronx, NY |

**Preservation of Minority Savings Institutions**

**Report to Congress for 2004**
**Pursuant to Sections 301 and 308 of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA)**

**Prepared by the Office of Thrift Supervision**

This report to Congress summarizes activities conducted by the Office of Thrift Supervision (OTS) during 2004 in support of Sections 301 and 308 of FIRREA, Preserving Minority Ownership of Minority Financial Institutions.

OTS supervised 24 minority owned savings associations at December 31, 2004 (see Attachment A). The total population of minority owned savings associations declined by two in 2004.

The distribution of minority owned savings associations by race and OTS Region as of 12/31/04 was:

| | Northeast | Southeast | Midwest | West | Total |
|---|---|---|---|---|---|
| African American | 2 | 7 | 2 | 1 | 12 |
| Asian American | 2 | 0 | 0 | 6 | 8 |
| Hispanic American | 1 | 2 | 0 | 1 | 4 |
| Total[1] | 5 | 9 | 2 | 8 | 24 |

(Note: Asian American includes Pacific Islanders and Hispanic American includes Puerto Ricans and Cubans.)

**Overall Condition of Minority Owned Institutions**

At the end of December 2004, minority owned savings associations held $6.4 billion in total assets, a decrease of $1.2 billion from year-end 2003. Total assets of minority owned associations represented 0.5% of total assets of all OTS-regulated savings associations as of December 31, 2004.

Based on categories established by the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), all 24 minority owned savings associations were "well capitalized" at the end of 2004. For the thrift industry as a whole, 99% of associations were "well capitalized" at year-end 2004.

[1] This total includes two African American associations that sold their stock publicly in 1995 and are currently unable to document minority ownership under the established criteria in Section 308. Both associations continue to serve minority neighborhoods, with primarily minority management. Consequently, OTS continues to consider them minority associations for purposes of this program.

Fifteen (65%) of the minority owned associations had CAMELS ratings of 1 or 2, the highest CAMELS ratings, at the end of 2004 compared with 93% for the entire thrift industry. Eight minority owned associations (35%) had a 3 rating.

**Minority Owned Institutions Program**

The Office of Thrift Supervision's Minority Owned Institutions Program is designed to provide technical assistance and other support to minority owned savings associations in an effort to promote and preserve these associations, many of which serve principally minority and lower income communities (see Attachment B).

During 2004, OTS continued its focus on minority owned savings associations that warranted monitoring and corrective action, and increased technical assistance.

At the Washington level, Consumer Protection and Specialty Programs staff was primarily responsible for monitoring OTS's Minority Owned Institutions Program and for carrying out the certification process to certify all minority owned savings associations regulated by OTS. Regional supervisory staff is primarily responsible for providing technical assistance and support when requested with increased outreach involvement by the Regional Directors.

OTS encourages minority owned savings associations to become involved in government programs that enhance their ability to effectively serve the needs of the communities, while also strengthening their capacity as an institution. The Department of the Treasury's Community Development Financial Institutions Fund (CDFI) Program and its Minority Bank Deposit Program are two examples.

Three minority owned savings associations regulated by OTS have successfully received CDFI certification as Community Development Financial Institutions (see Attachment C). CDFI certification allows these associations to apply for funding and technical assistance from the CDFI Fund. Some of these associations have applied for and received monetary awards from the CDFI Fund.

The Department of Treasury's Minority Bank Deposit Program (MBDP) is a voluntary program that encourages federal agencies, state and local governments and the private sector to use MBDP participants as depositories and financial agents. Qualified MBDP participants are certified by the Financial Management Service (FMS), a bureau of the Department of the Treasury, and included on a program roster distributed nationally to federal program agencies, contractors and other public and private sector organizations. Of the 24 minority owned savings associations regulated by OTS, 18 are MBDP certified and have received deposits and/or serve as financial agents (see Attachment D).

**Significant Outreach Activities**

Ongoing outreach, beyond the customary examination and supervisory process, is carried out by the regional Supervisory and Community Affairs staff and supported by the Washington office. Regional staff is in periodic contact with the associations and make certain they are informed of special initiatives and programs that may benefit them.

**OTS Washington Office**

The federal banking agencies began an interagency effort in March 2001 to determine the reasons minority owned institutions have declined over the years and examine some of the common challenges faced by many of these institutions. As a follow-up to this effort, the federal banking agencies held regional interagency forums in 2002 and 2003 with minority owned institutions in Dallas, Atlanta, New York, San Francisco, and New Orleans. The purpose of the forums was to further discuss challenges facing these institutions, best practices for dealing with those challenges and ways in which the regulatory agencies could better assist minority owned institutions. Regional interagency forums continued in 2004 in Atlanta, Chicago, Dallas and Washington, DC. In addition, a nationwide series of meetings with minority bankers is planned for 2005 to give bankers an opportunity to voice opinions and concerns with regulatory issues.

OTS staff also participates in an interagency committee that meets periodically to discuss ways the federal banking agencies can help preserve and promote the long-term viability of minority owned institutions.

**Northeast Region**

As of December 31, 2004, the Northeast Region regulated five minority owned savings associations. The region also has an application pending for a de novo minority owned savings association to be based in Boson, MA.

The financial condition of the minority owned associations in the Northeast Region as a group is very strong. While some of the associations have policy and procedure deficiencies, all of the associations have little or no major supervisory concerns.

To continue the promotion of the agency's Minority Owned Institutions Program, the Regional Director has a standing policy of meeting with the chief executives of the associations and their board members at their request anytime during the year to discuss issues of interest. The Northeast Region staff provides technical and other assistance to the minority owned savings associations in the region as needed. For example, the Northeast Region provided guidance to the Boston-based de novo applicant throughout the process of seeking a thrift charter.

The Northeast Region staff also worked with bank management of an association in New York to determine whether it was feasible for the association to acquire another minority owned institution located in Washington, DC. As the financial condition of the Washington, DC association continued to deteriorate during the acquisition process, Northeast Region staff helped the association realize the acquisition was no longer in its best interest.

In another instance, Northeast Region staff worked with an association that had significant Bank Secrecy Act (BSA) deficiencies. The region issued a Cease and Desist Order (C&D) and directed the association to hire consultants to assist management in taking necessary corrective actions. Examiners also provided guidance to senior management and the internal auditor during the regular examination to help the association comply with the C&D. If significant improvement in the association's BSA monitoring continues, OTS may be able to terminate the C&D. OTS examiners worked closely with the association to correct the BSA compliance problems.

Northeast Region examiners spent a significant amount of time with the executives of a very small association that serves a predominantly African American neighborhood. Examiners explained various regulatory requirements and provided technical assistance to help the association update many of its policies and procedures. The Northeast Region monitors the operations of the association very closely to ensure it does not slip into major problems. They have also identified a larger savings association to provide technical and operational assistance when the smaller association is ready.

**Southeast Region**

At December 31, 2004, the Southeast Region regulated nine minority owned savings associations. Four of the nine associations have assets in excess of $100 million. Another four had assets of $25 million or less. Generally, the minority owned savings associations in the Southeast Region did well in 2004. The nine associations operate 32 branches in 8 states and the District of Columbia, most in predominantly minority communities.

During 2004, the Southeast Region retained all minority owned associations it regulated at year-end 2003. Staff is continuing to work closely with one association that is seeking to merge with a minority owned bank during 2005. Other than this association, the Southeast Region does not anticipate any further reduction in the number of minority owned savings associations during 2005.

Southeast Region staff provided technical and other assistance to the minority owned savings associations in the region as appropriate in each circumstance. The examiners have regular contact with association management, speaking at least quarterly. Nearly all the minority owned associations have experienced earnings pressure during the year. For the very small associations, this is exacerbated by high operating costs. Regional staff met with several management teams to discuss weaknesses and explore plans for improvement where necessary. Senior regional management met with the boards of several associations at the conclusion of exams to discuss supervisory issues.

Southeast region staff also provided information to the CDFI Fund to assist a minority owned association to receive a large technical assistance grant to promote the development of low cost products for a troubled urban community.

**Midwest Region**

The Midwest Region supervised two minority owned savings associations at year-end 2004. Throughout the year, Midwest Region supervisory staff provided technical and other assistance to the minority owned savings associations in the region as needed.

For example, Midwest Region staff contacted management at a savings association in Milwaukee, Wisconsin to discuss operations and to keep abreast of events at the association, including the progress of the conversion to a new EDP system. The Regional Director met with the association to discuss the association's progress on its plans to build a new home office and the difficulty of maintaining its loan portfolio while customers refinance at other financial entities.

At another minority owned savings association located in New Orleans, regional staff stay apprised of the association's financial condition through contact with management, receipt of quarterly compliance plan variance reports, off-site monitoring, and on-site examinations and field visits. The Regional Director and other Midwest Region senior management met with officers and board of director members on several occasions during the year to discuss topics related to the association's earning trends, business strategy, and the parameters of a possible change of control. Management of this association also participated in quarterly New Orleans Bankers Roundtable meetings and Regional Director outreach meetings.

**West Region**

Minority owned savings associations domiciled in the West Region decreased from nine to eight during the reporting period. The decrease occurred when a savings association was acquired and merged into a minority owned commercial bank that will continue to provide banking and credit services in the local minority community.

The West Region has a long-standing policy to provide technical assistance to savings associations upon request, which is communicated to savings associations at forums such as town meetings, training seminars, industry trade group sessions, and on-site visits and examinations. During 2004, four of eight minority owned associations in the region took advantage of the policy and requested on-site visits by West Region staff. For example, West Region staff provided technical assistance to a minority owned association regarding transactions with affiliates. Follow-up activities were also conducted with a minority owned association to measure the effectiveness of corrective actions implemented to address deficiencies identified on a prior examination

To help improve the associations' knowledge base and strengthen their financial condition and operations, West Region minority owned associations were also invited to participate in various community development-training seminars and other educational events. In addition, minority owned associations were mailed notices and invitations to attend the 2004 Interagency Community Reinvestment Conference, Faith-Based Conference, CRA and Compliance Roundtable Workshops, and the Minority Depository Institutions Conference co-sponsored by the Federal Deposit Insurance Corporation, America's Community Bankers, and National Association of Chinese American Bankers. West Region staff also met with management of minority owned savings associations in conjunction with West Region town meetings held in 2004.

At the request of association management, West Region staff provided technical assistance during on-site visits conducted at four minority owned associations. As in previous years, the types of assistance provided to savings associations covered multiple technical areas. In each instance staff discussed the association's business strategies, local economic conditions, upcoming CRA examinations, CRA lending, investments and services, elder financial abuse, and OTS's Minority Owned Thrift Institutions and Community Affairs programs.

**Technical Assistance**

In 2004, OTS provided one-on-one technical assistance to a majority of the minority owned savings associations it regulates. The degree of technical assistance varied by association depending upon the issues identified as a result of the examination process, as a follow-up to outreach activities by the regional Community Affairs staff, or as requested by the association. As in previous years, the types of assistance provided to savings associations covered multiple technical areas. Moreover, OTS supervisory staff and periodically Regional Directors, attend board of directors meetings to report and discuss the progress of corrective measures, to provide guidance, and to solicit feedback.

Examples of technical assistance provided to OTS regulated minority owned savings associations during 2004 included the following:

- Provided regulatory guidance and legal assistance to two minority owned associations to help strengthen Bank Secrecy Act and anti-money laundering compliance programs.
- Provided assistance to an association on Customer Identification Program requirements on joint deposit accounts.
- Discussed a problem with a Federal Home Loan Bank of San Francisco Affordable Housing Program grant awarded to a project sponsored by a minority owned association.
- Continued working with a minority owned association on a strategy to resolve concerns regarding the association's concentration risk.
- Discussed assistance available to a minority owned savings association to help the association's ongoing efforts to identify a potential acquirer or merger partner.
- Started a discussion about organizing an interagency workshop to help identify potential investors and investments in minority owned financial institutions.
- Discussed regulatory relief provided to small associations due to amendment of the small institution definition under the OTS CRA Regulation.
- Assisted two minority owned savings associations with interest rate risk modeling.

- Provided assistance to senior management of an association to control growth, especially in high-risk assets, to prevent the association from slipping into potential lending problems.

**Attachment A**

**OFFICE OF THRIFT SUPERVISION**
**MINORITY OWNED SAVINGS ASSOCIATIONS**

**NATIONAL TOTAL: 24**
African American – 12
Asian/Pacific Islander American – 8
Hispanic American – 4
Multi-ethnic (African American & Asian/Pacific Islander American) -0
Native American – 0

**WEST REGION**
**Regional Total: 8**
African American – 1
Asian/Pacific Islander American – 6
Hispanic American - 1

| | |
|---|---|
| **Territorial Savings and Loan Association**<br>1132 Bishop Street, 22nd Floor<br>Honolulu, Hawaii 96813<br>(Stock) | Asian/Pacific Islander American |
| **BankPacific**<br>151 Aspinall Ave.<br>Hagatna, Guam 96910<br>(Stock) | Asian/Pacific Islander American |
| **Universal Bank**<br>3455 Nogales St., 2nd Fl.<br>West Covina, CA 91792<br>(Stock) | Asian/Pacific Islander American |
| **Broadway Federal Bank, F.S.B.**<br>4800 Wilshire Boulevard<br>Los Angeles, CA 90010<br>(Stock) | African American |
| **Standard Savings Bank, FSB**<br>228 West Garvey Ave.<br>Monterey Park, CA 91754-1603<br>(Stock) | Asian/Pacific Islander American |
| **Pan American Bank, FSB**<br>3990 Westerly place, Suite 200<br>Newport Beach, CA 92660<br>(Stock) | Hispanic American |

| | |
|---|---|
| **Gateway Bank, FSB**<br>919 Clement Street<br>San Francisco, CA 94118<br>(Stock) | Asian/Pacific Islander American |
| **Sincere Federal Savings Bank**<br>1355 Stockton St.<br>San Francisco, CA 94133-3822<br>(Stock) | Asian/Pacific Islander American |

**MIDWEST REGION**
**Regional Total: 2**
African American – 2

| | |
|---|---|
| **Columbia Savings and Loan Association**<br>2000 West Fond du Lac Avenue<br>Milwaukee, WI 53205-1122<br>(Mutual) | African American |
| **Dryades Savings Bank, FSB**<br>231 Carondelet St., Suite 200<br>New Orleans, LA 70130-3002<br>(Stock) | African American |

**SOUTHEAST REGION**
**Regional Total: 9**
African American – 7
Hispanic American – 2

| | |
|---|---|
| **Advance Bank**<br>4801 Seton Drive<br>Baltimore, MD 21215<br>(Mutual) | African American |
| **Gulf Federal Bank, a FSB**<br>901 Springhill Ave.<br>Mobile, Alabama 36604<br>(Stock) | African American |
| **Home Federal Savings Bank**<br>9108 Woodward Ave.<br>Detroit, MI 48202-1612<br>(Mutual) | African American |
| **Ideal Federal Savings Bank**<br>1629 Druid Hill Ave.<br>Baltimore, MD 21217<br>(Mutual) | African American |

**Illinois Service Federal Savings & Loan Assoc.** African American
4619 South Martin Luther King Jr. Drive
Chicago, IL 60653-4107
(Mutual)

**Imperial Savings & Loan Association** African American
211 Fayette St.
Martinsville, VA 24112
(Mutual)

**Independence Federal Savings Bank** African American
1229 Connecticut Avenue, N.W.
Washington, DC 20036-2601
(Stock)

**Interamerican Bank, FSB** Hispanic American
9190 Coral Way
Miami, FL 33165
(Stock)

**UniBank** Hispanic American
701 Brickell Avenue
Miami, FL 33131
(Stock)

**NORTHEAST REGION**
**Regional Total: 5**
African American - 2
Asian American -2
Hispanic American - 1

**Abacus Federal Savings Bank** Asian/Pacific Islander American
6 Bowery
New York, NY 10013-5101
(Stock)

**Carver Federal Savings Bank** African American
75 West 125th St.
New York, NY 10027
(Stock)

**Chinatown Federal Savings Bank** Asian/Pacific Islander American
109 Bowery
New York, NY 10002
(Stock)

**Dwelling House Savings & Loan Association** African American
501 Herron Ave.
Pittsburgh, Pennsylvania 15219-4609
(Mutual)

**Ponce De Leon Federal Savings Bank**
2244 Westchester Ave.
Bronx, NY 10462
(Mutual)

Hispanic American

**Attachment B**

**Office of Thrift Supervision**
**Policy Statement on Minority Owned Thrift Institutions**

This statement outlines Office of Thrift Supervision (OTS) policies regarding minority owned thrift institutions for the guidance of those institutions, OTS staff, and other parties with an interest in the thrift industry.

OTS recognizes the important role of minority owned thrift institutions in furthering the economic viability of minority and low-income communities. Minority owned thrift institutions can also provide significant assistance to regulators and other government agencies in their efforts to evaluate and address the needs of those communities for financial services. OTS and its predecessor have had an ongoing minority association technical assistance function since the 1970's.

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), Section 308, reinforces our commitment. FIRREA identifies the following goals that form the basis of OTS' Minority Owned Thrift Institutions Program:

- Preserve the present number of minority depository institutions;
- Preserve their minority character in cases involving merger or acquisition of a minority depository institution by using general preference guidelines;
- Provide technical assistance to prevent insolvency of institutions not now insolvent;
- Promote and encourage creation of new minority depository institutions; and
- Provide for training, technical assistance, and educational programs.

As defined in FIRREA, the term "minority" includes Black American, Native American, Hispanic American, or Asian American. A minority owned institution is either a stock institution in which minorities have at least 51 percent ownership, or a mutual institution in which the majority of the Board of Directors, account holders, and the community that it services is predominantly minority. OTS will consider mutual institutions, in which the majority of the Board of Directors and the Chief Executive Officer are women, to be minority institutions for the purposes of this program. OTS will also consider publicly traded stock companies, that have the minority characteristics described for mutual institutions, to be minority owned for purposes of this program.

**Identification of Minority Owned Institutions**

OTS will annually certify previously identified minority owned institutions to establish their continued inclusion in the program. OTS staff will identify additional candidates for the program through the examination and application processes.

On a case-by-case basis, OTS will make a list of minority owned savings associations available to potential investors or other parties interested in establishing business relationships with minority owned institutions.

### Technical Assistance

OTS will provide technical assistance, especially in the supervision and application processes, in order to preserve the number, character and financial health of minority owned institutions. Requests for technical assistance should be directed to the Community Affairs Liaison in the appropriate OTS regional office, who will coordinate with regional supervisory staff.

OTS will also monitor the financial condition of minority owned thrift institutions on an ongoing basis, and will share compilations of non-confidential financial data with minority owned institutions to help them monitor their performance. Through this process, OTS will identify those minority owned institutions that might benefit from a program of increased support and technical assistance, such as mentoring arrangements with other savings associations. Minority owned institutions that are in a generally sound condition, but which may be experiencing operating difficulties in one, or a few areas, would fall into this category. Often, problems can be attributed to limited resources due to the institutions' small size. Participation in the program, by both minority owned institutions and potential mentors, is voluntary.

For those minority owned institutions experiencing more serious operating problems, appropriate OTS regional staff, such as the Field Manager and/or Assistant Regional Director, will consult and work with executive management of the institution to determine, and implement, a course of corrective action.

### Resolution of Supervisory Cases

In resolving supervisory cases involving minority owned savings associations, OTS will consider and evaluate possible solutions that would, consistent with the safety and soundness of the institution, maintain the institution's minority identity. In evaluating solutions, OTS will also consider the composition of the community being served by the institution. OTS will consider the minority status of an institution in its recommendations to the Federal Deposit Insurance Corporation, consistent with the agency's underlying responsibility for the safety and soundness of the thrift industry.

### Outreach to Minority Owned Savings associations

Whenever possible, OTS staff will participate in seminars, conferences and workshops directed to minority owned institution audiences. Requests for such participation should be directed to the Community Affairs Liaisons in the regional offices.

Additionally, OTS will maintain contact with minority owned institutions, outside the more customary examination and supervision process. At a minimum, the Regional Director will offer to meet with each thrift's Board of Directors, at least annually, to discuss issues of mutual interest, such as economic trends, regulatory or legislative developments, and types of assistance that OTS can provide to minority owned institutions.

OTS will support minority owned thrift institutions in their efforts to offer products and services to their minority and non-minority customers. To support minority owned savings associations in providing credit and other needed financial services to their communities, OTS will work with appropriate parties to measure and track performance.

In addition, the regional Community Affairs Liaisons will contact each minority owned thrift, at least annually, to discuss community development activities and opportunities.

**Potential Investors**

The agency will also offer technical assistance to minority groups or individuals considering investments in the thrift industry, in order to strengthen existing institutions, create new minority owned institutions, or help to service minority communities. OTS encourages such interest and will work with minority organizations to provide information and to identify potential minority investors. If minority investors are interested in acquiring thrift institutions held by the Federal Deposit Insurance Corporation as conservator or receiver, OTS will work with them to process expeditiously the preliminary regulatory approval that is required prior to submission of a bid.

Approved:

JEGilleran

James E. Gilleran, Director

June 21, 2002

**Attachment C**

**OTS Regulated Minority Owned Institutions**
**Certified as Community Development Financial Institutions (CDFI)**

**Carver Federal Savings Bank**
75 West 125$^{th}$ Street
New York, NY 10027

**Dryades Savings Bank, F.S.B.**
231 Carondelet Street
Suite 200
New Orleans, LA 70130-3002

**Illinois Service Federal Savings and Loan Association**
4619 South Martin Luther King, Jr. Drive
Chicago, IL 60653-4107

**Attachment D**

**OTS Minority Owned Financial Institutions**
**Participating in the Treasury Department's Minority Bank Deposit Program**

| | |
|---|---|
| **West Region** | |
| BankPacific | Hagatna, Guam |
| Gateway Bank, FSB | San Francisco, CA |
| Pan American Bank, FSB | Burlingame, CA |
| Sincere Federal Savings Bank | San Francisco, CA |
| Universal Bank | West Covina, CA |
| **Midwest Region** | |
| Dryades Savings Bank, FSB | New Orleans, LA |
| **Southeast Region** | |
| Advance Bank | Baltimore, MD |
| Gulf Federal Bank, a FSB | Mobile, AL |
| Home Federal Savings Bank | Detroit, MI |
| Ideal Federal Savings Bank | Baltimore, MD |
| Illinois Service Federal Savings & Loan Assoc. | Chicago, IL |
| Imperial Savings & Loan Association | Martinsville, VA |
| Independence Federal Savings Bank | Washington, DC |
| Interamerican Bank, FSB | Miami, FL |
| UniBank | Pinecrest, FL |
| **Northeast Region** | |
| Carver Federal Savings Bank | New York, NY |
| Chinatown Federal Savings Bank | New York, NY |
| Ponce de Leon Federal Savings Bank | Bronx, NY |

## PRESERVATION OF MINORITY SAVINGS INSTITUTIONS BY THE OFFICE OF THRIFT SUPERVISION

### Report to Congress for 2005 Pursuant to Sections 301 and 308 of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA)

This report to Congress summarizes activities conducted by the Office of Thrift Supervision (OTS) during 2005 in support of Sections 301 and 308 of FIRREA, Preserving Minority Ownership of Minority Financial Institutions.

OTS supervised 22 minority owned savings associations at December 31, 2005 (see Attachment A). The total population of minority owned savings associations declined by two in 2005.

The distribution of minority owned savings associations by racial background and OTS Region as of 12/31/05 was:

| | Northeast | Southeast | Midwest | West | Total |
|---|---|---|---|---|---|
| African American | 2 | 7 | 2 | 1 | 12 |
| Asian American | 2 | 0 | 0 | 5 | 7 |
| Hispanic American | 1 | 2 | 0 | 0 | 3 |
| Total[1] | 5 | 9 | 2 | 6 | 22 |

(Note: Asian American includes individuals of Pacific Island descent, and Hispanic American includes individuals of Puerto Rican and/or Cuban descent.)

### Overall Condition of Minority Owned Institutions

At the end of December 2005, minority owned savings associations[2] held $6.5 billion in total assets, a slight increase from $6.4 billion at year-end 2004. Total assets of minority owned associations represented 0.44 percent of total assets of all OTS-regulated savings associations as of December 31, 2005.

[1] This total includes two African American associations that sold their stock publicly in 1995 and are currently unable to document minority ownership under the established criteria in Section 308. Both associations continue to serve minority neighborhoods, with primarily minority management. Consequently, OTS continues to consider them minority associations for purposes of this program.

[2] For the purposes of this report, OTS uses the terms savings associations and institutions interchangeably.

Based on categories established by the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), all 22 minority owned savings associations were "well capitalized" at the end of 2005. For the entire thrift industry, 99 percent of associations were "well capitalized" at year-end 2005.

Sixteen (73 percent) of the minority owned associations had CAMELS ratings of 1 or 2, the highest CAMELS rating categories, at the end of 2005, compared with 94 percent for the entire thrift industry. Six minority owned associations (27 percent) had a 3 rating. No minority owned associations were rated 4 or 5, the lowest CAMELS rating categories.

**Minority Owned Institutions Program**

The OTS's Minority Owned Financial Institutions (MOFI) Program is designed to provide technical assistance and other support to minority owned savings associations to promote and preserve these associations, many of which primarily serve minority and lower income communities (see Attachment B).

The Consumer Protection and Specialty Programs staff in Washington is primarily responsible for monitoring OTS's MOFI Program and for carrying out the annual certification process for minority owned savings associations regulated by OTS. Regional supervisory staff is primarily responsible for providing technical assistance and support when requested by minority owned institutions, including increased outreach and involvement by the Regional Directors.

Additionally, the Regional Supervisory and Community Affairs staff, with support from the Washington office, conducts ongoing outreach beyond the customary examination and supervisory process. Regional staff is in periodic contact with these institutions, and provide information on special initiatives and programs that may benefit the institutions. Regional staff also informs institution management of workshops, training forums, and conferences that offer information and other resources that can contribute to building the capacity and strength of the institution and provide networking opportunities.

OTS encourages minority owned savings associations to become involved in government programs that enhance their ability to serve the needs of their communities, while also strengthening their capacity as an institution. The Department of the Treasury's Community Development Financial Institutions Fund (CDFI) Program and its Minority Bank Deposit Program are two examples.

Three OTS-regulated minority owned savings associations have successfully received CDFI certification as Community Development Financial Institutions (see Attachment C). CDFI certification allows these institutions to apply for funding and technical assistance from the CDFI Fund, including the receipt of monetary awards.

The Department of Treasury's Minority Bank Deposit Program (MBDP) is a voluntary program that encourages federal agencies, state and local governments, and the private sector to use MBDP participants as depositories and financial agents. Qualified MBDP participants are certified by the Financial Management Service (FMS), a bureau of the Department of the Treasury, and included on a program roster distributed nationally to federal program agencies, contractors, and other public and private sector organizations. Of the 22 minority owned savings associations regulated by OTS, 17 are MBDP certified and receive deposits and/or serve as financial agents (see Attachment D).

**OTS National MOFI Program – Initiatives**
**Supporting Minority Owned Financial Institutions**

Minority owned financial institutions play a unique and important role in serving their local markets and often make the difference in whether the residents of lower income neighborhoods have access to financial services. However, just as consolidation in the financial services industry has resulted in a decline in the overall number of institutions, the number of minority owned insured depository institutions has declined. In order to determine the reasons minority owned institutions have declined over the years, the federal banking agencies initiated an interagency effort in March 2001 to examine the common challenges faced by many of these institutions. As a follow-up to this effort, the federal banking agencies held a number of interagency forums with minority owned institutions throughout the country in 2002 through 2004. The purpose of the forums was to discuss challenges facing these institutions, best practices for dealing with those challenges, and ways in which the regulatory agencies could better assist minority owned institutions.

In 2005, the OTS encouraged our minority institutions to participate in a series of six interagency roundtable meetings in Atlanta, Nashville, Santa Monica, New York, Houston, and San Juan. The roundtables promoted open and direct dialogue about challenges faced by minority owned institutions and explored ways to collaborate with the minority banking community. Topics included regulatory burden, competition, marketing, management succession, staffing recruitment, wholesale funding, and the examination process.

OTS participated in the interagency forums and roundtable meetings held from 2001 through 2005 in a number of ways including serving as panelists and moderators, inviting and encouraging OTS-regulated minority owned institution participation, providing speakers, and using the opportunity to network with OTS-regulated minority owned institutions.

OTS is also a member of the federal banking agency Interagency Minority Depository Institutions Working Group. Staff meets periodically to exchange information about federal banking agency programs and to discuss upcoming events that might benefit minority owned institutions.

**One-on-One Technical Assistance**

OTS provides one-on-one technical assistance to a majority of the minority owned savings associations it regulates. The degree of technical assistance varies depending upon the issues identified as a result of the examination process, as a follow-up to outreach activities by the OTS Regional Community Affairs staff, or as requested by an institution. As in previous years, the types of assistance provided in 2005 to savings associations covered multiple technical areas. OTS supervisory staff and, occasionally, Regional Directors attend board of directors meetings to report and discuss the progress of corrective measures, to provide guidance, and to solicit feedback.

Examples of technical assistance provided to OTS-regulated minority owned savings associations during 2005 include the following:

- Ongoing communications, off-site monitoring, and on-site examination work to assist institutions in addressing problem areas identified during examinations.

- Assistance to identify and remedy examination weaknesses in branch operations.

- Assisting institution directors in analyzing their business plan and operations.

- Assistance to several institutions seeking to merge with other minority owned institutions, including providing feedback on issues surrounding potential merger partners.

- On-site assistance to set up OTS software for an institution to obtain interest rate risk reports and Uniform Thrift Performance Reports from OTS's Thrift Financial Reporting System.

- Assistance with classifying and reporting loans on the Thrift Financial Report.

- Guidance on enhancing compliance management programs, including Bank Secrecy Act (BSA) compliance requirements, and advice on registering for FinCEN's 314(a) secure website to assist in meeting BSA regulatory reporting requirements.

- Assistance regarding selection criteria for candidates nominated for Board of Director positions.

- Assistance with identifying and hiring key personnel, including helping one institution hire a new president who made additional hires to strengthen the institution's senior management team.

- Guidance to an institution planning to launch a transactional website to provide Internet banking for its customers.

- Lending guidance, including assistance in evaluating large loan exposures, advising institutions of potential problems and, in one instance, assisting in the rejection by an institution of at least two large and potentially problematic loans.

- Investigative support, such as pursuing an alleged embezzlement by a former employee of an institution.

- Assistance to small institutions in finding new office facilities.

## OTS National MOFI Program – Initiatives Deployed in OTS Regional Offices

**Northeast Region**

There are five minority owned savings associations in the Northeast Region. The Region also received an application during 2005 for a de novo minority owned savings association, to be based in Boson, Massachusetts that is proposing to commence operations in 2006. The financial condition of the minority owned associations in the Northeast Region continues to remain strong.

In support of OTS's MOFI Program, the Regional Director has a standing policy of meeting with the chief executives of all minority owned institutions and their board members at their request to discuss issues of interest. For example, Northeast Region staff continues to provide technical and other assistance to the de novo minority owned institution referenced above. At year-end 2005, the institution was continuing efforts to raise the required capital to commence operations. In support of this effort, OTS extended the required start date for the institution on two occasions in 2005.[3]

The Northeast Region also provided assistance during the year to a $20 million savings association serving a predominantly African American neighborhood. The institution has experienced difficult market conditions, and has also required assistance in updating its policies, procedures, recordkeeping, account reconciliation, bookkeeping, and in other technical areas. The institution has experienced these problems for several years. As a result, the Region arranged for the institution to receive mentoring assistance from a highly rated $5.37 billion institution. The Region supervised the agreement between the institutions, which should significantly improve the operations and management of the minority owned institution. OTS examiners have spent a considerable amount of time with the savings association's management and have provided technical assistance in updating numerous policies and procedures.

The Region also provided assistance to another minority owned savings association that had significant BSA deficiencies. Regional staff worked closely with the institution's management to improve internal BSA policies and procedures and provide guidance to senior management and the internal auditor. OTS examiners worked closely with the institution to address the existing BSA compliance problems. The institution is currently operating without any supervisory concerns.

In another instance, the Northeast Regional Director issued a Supervisory Agreement imposing operating restrictions on a minority owned savings association as a result of deficiencies in credit administration, loan monitoring, and internal loan reviews. The Supervisory Agreement restricts the institution from engaging in high-risk lending and required it to revise its business plan. A field visit in November of 2005 showed substantial compliance with the Supervisory Agreement, and the institution's current operating condition is satisfactory. Assuming the institution continues to maintain compliance with the Supervisory Agreement, the agreement will be terminated.

[3] As a result of numerous delays, including approval of the institution's FDIC insurance, OTS has granted in 2006 two additional extensions of time for the institution to open for business. As of 7/1/06, the institution has not raised the required capital to begin operations.

**Southeast Region**

As of December 31, 2005, the Southeast Region regulated nine minority owned savings associations, representing the largest concentration of OTS-regulated minority owned institutions. During 2005, the Southeast Region retained all minority owned institutions it regulated at year-end 2004. Staff is continuing to work closely with one institution that has been pursuing a merger with another minority owned bank for several years. Other than this institution, we do not anticipate a reduction in the number of minority owned savings associations in the Southeast Region during 2006. In fact, the Region is working closely with a group of minority investors interested in acquiring an existing thrift charter in 2006.

The profiles of the nine savings associations in the Southeast Region are quite diverse. The smallest has assets of $8 million, while the largest has almost $700 million in assets. Due to the diverse nature of the issues at these institutions, the Region provides a varying level of technical and other assistance to each.

In the aggregate, minority owned institutions in the Southeast Region struggled with earnings in 2005. Although the largest savings associations demonstrated improvement or maintained satisfactory earnings, seven institutions experienced significant earnings issues. This problem is not unique, however, to minority-owned institutions. Many other small institutions throughout the region faced weak earnings because they cannot generate the same economies of scale as large institutions. For example, advertising costs to generate loans may be the same for both a large and small institution. However, the smaller institution generates less loan volume, resulting in a higher percentage of income for advertising costs and lower earnings. The problem is exacerbated by high operating costs and stiff competition.

Southeast Region examiners have regular contact with minority institution management, including quarterly meetings or discussions. Regional staff works particularly closely with the smallest minority owned institutions, all of which are well capitalized. Most guidance provided by Regional staff is not in the form of a specific program of technical assistance, but rather on a regular, informal basis. For example, some institutions consult with Southeast Region staff before they underwrite large loans. Institutions also consult with Regional staff to make certain that their assets are properly insured, their reporting is accurate, and monitoring and classification systems are effective. Supervisory staff works with the managing officers of these institutions, providing guidance and acting as a sounding board for new ideas, products, and programs. Senior regional managers also meet with the boards of directors of minority owned institutions during the year, as necessary. The Southeast Region also notifies minority owned institutions of interagency conferences that may be of interest to them.

**Midwest Region**

The Midwest Region supervised two minority owned savings associations at year-end 2005. Throughout the year, Midwest Region supervisory staff contacted, assisted, and provided technical support to management and boards of directors at these institutions in a timely and consistent manner.

One of the minority owned savings associations in the Midwest Region is a state chartered mutual institution that opened for business in September 1933. The institution primarily grants one- to four-family mortgage loans to customers in its local community and loans to religious organizations. Midwest Region staff contacted management at the institution on a quarterly basis to discuss operations and to keep abreast of events. The Midwest Regional Director also met with the president of this institution in October 2005.

The other savings association in the Midwest Region is a federally chartered stock institution that opened for business in September 1994. Its primary lending activities are residential mortgages, commercial real estate, consumer, and small business. Midwest Region staff remains apprised of the institution's financial condition through contact with management, receipt of quarterly reports, off-site monitoring, and on-site examinations and field visits. Midwest Region management also maintained close contact during the year with the institution's management and an outside director regarding a possible sale or merger.

The institution was severely impacted by Hurricane Katrina. OTS staff maintained almost daily contact with association management, monitoring their recovery and offering assistance. For example, staff assisted the association in establishing contact with the Federal Reserve to dispose of contaminated currency. Senior managers from the Midwest Region, including the Regional Director, had several meetings with institution management and board members to help resolve the institution's performance issues. An OTS examiner has been assigned to the institution, working on-site, full-time to help identify and resolve issues. Midwest Region staff also introduced the savings association's management to officials at an institution in Texas who are providing technical compliance and accounting assistance in the aftermath of Hurricane Katrina. Midwest Region staff continues to maintain regular contact with the association.

Management from the savings association also participates in Regional Director outreach meetings and quarterly New Orleans Bankers Roundtable meetings. The Roundtable meetings convene the Chief Executive Officers and Presidents of local banks to discuss topics of interest such as regulatory issues, small business and micro lending, and information on lending and investment opportunities in the local community.

**West Region**

West Region minority owned savings associations continued to play a significant role in addressing the credit and banking needs in the communities they serve. Minority owned savings associations in the Region provided a wide range of retail deposit products and services and conventional loan products to low- and moderate-income individuals and local small businesses. There were six West Region minority owned savings associations at year-end 2005, a decrease of two from 2004. During 2005, one minority owned institution in the Region merged into a minority owned commercial bank, which has continued to meet the credit and banking needs of the local communities. The other minority owned institution made a business decision to cease operations.

The West Region staff communicates OTS's policy of providing technical assistance to minority owned institutions at town meetings, outreach events, training workshops, industry trade group sessions, and during on-site visits and examinations. The Region also invited minority owned institutions to attend interagency outreach events and community development training forums designed to help improve their knowledge and compliance with regulatory requirements. West Region minority owned savings associations were invited to attend the annual Minority Depository Institutions Conference hosted by the FDIC in San Francisco. Topics included the Bank Secrecy Act, USA PATRIOT Act, Sarbanes-Oxley, the responsibilities of Directors, the California economy, and other current issues.

West Region staff also extended invitations to minority owned savings associations to participate in a "Directo A Mexico" workshop hosted by the FDIC. This informational workshop was designed to inform participants about a low-cost remittance program offered by the Federal Reserve Bank of Atlanta and Banco de Mexico. Minority owned institutions were also notified about a series of Bank Secrecy Act and "Compliance Hot Topics" Workshops held in 2005, as well as the upcoming interagency 2006 National Community Reinvestment Conference. Minority owned institutions are also invited to participate in town meetings with the West Region's senior managers to discuss current regulatory and examination issues, economic conditions in their markets, and other items of interest.

Minority owned savings associations requested limited on-site technical assistance during 2005. The assistance that was requested related primarily to efforts by two institutions to effect a merger and acquisition with minority owned commercial banks.

**Conclusion**

OTS and its predecessor have had an ongoing minority technical assistance program since the 1970s. This program preceded the goals identified in FIRREA in 1989 to promote and encourage the formation of new minority owned institutions and to preserve and support minority owned financial institutions through technical assistance, training and outreach programs. OTS remains committed to these goals and recognizes the important role minority owned institutions continue to play in fostering economic vitality and access to capital, particularly in minority and low income communities.

While we are pleased with our record of supporting minority owned institutions, we are also looking forward to the future. For example, OTS is actively exploring initiatives that will help us meet our commitment to preserve existing minority owned institutions and encourage the formation of new ones. One such initiative is the development of an OTS booth that we will use to participate in conferences and meetings across the country. We plan to utilize the booth to provide information about the thrift charter, including its benefits. We also plan to highlight our Minority Owned Institutions program, including the types of assistance OTS will provide.

**Attachment A**

**OFFICE OF THRIFT SUPERVISION**
**MINORITY OWNED SAVINGS ASSOCIATIONS**
(Page 1 of 4)

**NATIONAL TOTAL: 22**
African American – 12
Asian/Pacific Islander American – 7
Hispanic American – 3
Multi-ethnic (African American & Asian/Pacific Islander American) -0
Native American – 0

**WEST REGION**
**Regional Total: 6**
African American – 1
Asian/Pacific Islander American – 5

| | |
|---|---|
| **Territorial Savings and Loan Association**<br>1132 Bishop Street, 22nd Floor<br>Honolulu, Hawaii 96813<br>(Stock) | Asian/Pacific Islander American |
| **BankPacific**<br>151 Aspinall Ave.<br>Hagatna, Guam 96910<br>(Stock) | Asian/Pacific Islander American |
| **Universal Bank**<br>3455 Nogales St., 2nd Fl.<br>West Covina, CA 91792<br>(Stock) | Asian/Pacific Islander American |
| **Broadway Federal Bank, F.S.B.**<br>4800 Wilshire Boulevard<br>Los Angeles, CA 90010<br>(Stock) | African American |
| **Standard Bank**<br>228 West Garvey Ave.<br>Monterey Park, CA 91754-1603<br>(Stock) | Asian/Pacific Islander American |
| **Gateway Bank, FSB**<br>919 Clement Street<br>San Francisco, CA 94118<br>(Stock) | Asian/Pacific Islander American |

**Attachment A**

**OFFICE OF THRIFT SUPERVISION**
**MINORITY OWNED SAVINGS ASSOCIATIONS**
(Page 2 of 4)

**MIDWEST REGION**
**Regional Total: 2**
African American – 2

| | |
|---|---|
| **Columbia Savings and Loan Association**<br>2000 West Fond du Lac Avenue<br>Milwaukee, WI 53205-1122<br>(Mutual) | African American |
| **Dryades Savings Bank, FSB**<br>231 Carondelet St., Suite 200<br>New Orleans, LA 70130-3002<br>(Stock) | African American |

**SOUTHEAST REGION**
**Regional Total: 9**
African American – 7
Hispanic American – 2

| | |
|---|---|
| **Advance Bank**<br>4801 Seton Drive<br>Baltimore, MD 21215<br>(Mutual) | African American |
| **Gulf Federal Bank, a FSB**<br>901 Springhill Ave.<br>Mobile, Alabama 36604<br>(Stock) | African American |
| **Home Federal Savings Bank**<br>9108 Woodward Ave.<br>Detroit, MI 48202-1612<br>(Mutual) | African American |
| **Ideal Federal Savings Bank**<br>1629 Druid Hill Ave.<br>Baltimore, MD 21217<br>(Mutual) | African American |
| **Illinois Service Federal Savings & Loan Assoc.**<br>4619 South Martin Luther King Jr. Drive<br>Chicago, IL 60653-4107<br>(Mutual) | African American |

**Attachment A**

**OFFICE OF THRIFT SUPERVISION**
**MINORITY OWNED SAVINGS ASSOCIATIONS**
(Page 3 of 4)

| | |
|---|---|
| **Imperial Savings & Loan Association**<br>211 Fayette St.<br>Martinsville, VA 24112<br>(Mutual) | African American |
| **Independence Federal Savings Bank**<br>1229 Connecticut Avenue, N.W.<br>Washington, DC 20036-2601<br>(Stock) | African American |
| **Interamerican Bank, FSB**<br>9190 Coral Way<br>Miami, FL 33165<br>(Stock) | Hispanic American |
| **UniBank**<br>701 Brickell Avenue<br>Miami, FL 33131<br>(Stock) | Hispanic American |

**NORTHEAST REGION**
**Regional Total: 5**
African American - 2
Asian American -2
Hispanic American - 1

| | |
|---|---|
| **Abacus Federal Savings Bank**<br>6 Bowery<br>New York, NY 10013-5101<br>(Stock) | Asian/Pacific<br>Islander American |
| **Carver Federal Savings Bank**<br>75 West 125th St.<br>New York, NY 10027<br>(Stock) | African American |

**Attachment A**

**OFFICE OF THRIFT SUPERVISION**
**MINORITY OWNED SAVINGS ASSOCIATIONS**
(Page 4 of 4)

| | |
|---|---|
| **Chinatown Federal Savings Bank**<br>109 Bowery<br>New York, NY 10002<br>(Stock) | Asian/Pacific Islander American |
| **Dwelling House Savings & Loan Association**<br>501 Herron Ave.<br>Pittsburgh, Pennsylvania 15219-4609<br>(Mutual) | African American |
| **Ponce De Leon Federal Savings Bank**<br>2244 Westchester Ave.<br>Bronx, NY 10462<br>(Mutual) | Hispanic American |

**Attachment B**

**Office of Thrift Supervision**
**Policy Statement on Minority Owned Thrift Institutions**

This statement outlines Office of Thrift Supervision (OTS) policies regarding minority owned thrift institutions for the guidance of those institutions, OTS staff, and other parties with an interest in the thrift industry.

OTS recognizes the important role of minority owned thrift institutions in furthering the economic viability of minority and low-income communities. Minority owned thrift institutions can also provide significant assistance to regulators and other government agencies in their efforts to evaluate and address the needs of those communities for financial services. OTS and its predecessor have had an ongoing minority association technical assistance function since the 1970's.

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), Section 308, reinforces our commitment. FIRREA identifies the following goals that form the basis of OTS' Minority Owned Thrift Institutions Program:

- Preserve the present number of minority depository institutions;
- Preserve their minority character in cases involving merger or acquisition of a minority depository institution by using general preference guidelines;
- Provide technical assistance to prevent insolvency of institutions not now insolvent;
- Promote and encourage creation of new minority depository institutions; and
- Provide for training, technical assistance, and educational programs.

As defined in FIRREA, the term "minority" includes Black American, Native American, Hispanic American, or Asian American. A minority owned institution is either a stock institution in which minorities have at least 51 percent ownership, or a mutual institution in which the majority of the Board of Directors, account holders, and the community that it services is predominantly minority. OTS will consider mutual institutions, in which the majority of the Board of Directors and the Chief Executive Officer are women, to be minority institutions for the purposes of this program. OTS will also consider publicly traded stock companies that have the minority characteristics described for mutual institutions to be minority owned for purposes of this program.

**Identification of Minority Owned Institutions**

OTS will annually verify previously identified minority owned institutions through a self-certification process by the institutions to establish their continued inclusion in the program. OTS staff will identify additional candidates for the program through the examination and application processes.

Upon request, OTS will make a list of minority owned savings associations available to potential investors or other parties interested in establishing business relationships with minority owned institutions.

**Technical Assistance**

OTS will provide technical assistance, especially in the supervision and application processes, in order to preserve the number, character and financial health of minority owned institutions. Requests for technical assistance should be directed to the Community Affairs Liaison in the appropriate OTS regional office, who will coordinate with regional supervisory staff.

OTS will also monitor the financial condition of minority owned thrift institutions on an ongoing basis, and will share compilations of non-confidential financial data with minority owned institutions to help them monitor their performance. Through this process, OTS will identify those minority owned institutions that might benefit from a program of increased support and technical assistance, such as mentoring arrangements with other savings associations. Minority owned institutions that are in a generally sound condition, but which may be experiencing operating difficulties in one, or a few areas, would fall into this category. Often, problems can be attributed to limited resources due to the institutions' small size. Participation in the program, by both minority owned institutions and potential mentors, is voluntary.

For those minority owned institutions experiencing more serious operating problems, appropriate OTS regional staff, such as the Field Manager and/or Assistant Regional Director, will consult and work with executive management of the institution to determine, and implement, a course of corrective action.

**Resolution of Supervisory Cases**

In resolving supervisory cases involving minority owned savings associations, OTS will consider and evaluate possible solutions that would, consistent with the safety and soundness of the institution, maintain the institution's minority identity. In evaluating solutions, OTS will also consider the composition of the community being served by the institution.

**Outreach to Minority Owned Savings associations**

Whenever possible, OTS staff will participate in seminars, conferences and workshops directed to minority owned institution audiences. Requests for such participation should be directed to the Community Affairs Liaisons in the regional offices.

Additionally, OTS will maintain contact with minority owned institutions, outside the more customary examination and supervision process. At a minimum, the Regional Director will offer to meet with each thrift's Board of Directors, at least annually, to discuss issues of mutual interest, such as economic trends, regulatory or legislative developments, and types of assistance that OTS can provide to minority owned institutions.

OTS will support minority owned thrift institutions in their efforts to offer products and services to their minority and non-minority customers. To support minority owned savings associations in providing credit and other needed financial services to their communities, OTS will work with appropriate parties to measure and track performance. In addition, the regional Community Affairs Liaisons will contact each minority owned thrift, at least annually, to discuss community development activities and opportunities.

**Potential Investors**

The agency will also offer technical assistance to minority groups or individuals considering investments in the thrift industry, in order to strengthen existing institutions, create new minority owned institutions, or help to service minority communities. OTS encourages such interest and will work with minority organizations to provide information and to identify potential minority investors. If minority investors are interested in acquiring thrift institutions held by the Federal Deposit Insurance Corporation as conservator or receiver, OTS will work with them to process expeditiously the preliminary regulatory approval that is required prior to submission of a bid.

**Attachment C**

**OTS-Regulated Minority Owned Institutions**
**Certified as Community Development Financial Institutions (CDFI)**

**Advance Bank**
4801 Seton Drive
Baltimore, MD 21215

**Carver Federal Savings Bank**
75 West 125$^{th}$ Street
New York, NY 10027

**Illinois Service Federal Savings and Loan Association**
4619 South Martin Luther King, Jr. Drive
Chicago, IL 60653-4107

**Attachment D**

**OTS-Regulated Minority Owned Financial Institutions Participating in the Treasury Department's Minority Bank Deposit Program**

| | |
|---|---|
| **West Region** | |
| BankPacific | Hagatna, Guam |
| Gateway Bank, FSB | San Francisco, CA |
| Standard Bank | Monterey Park, CA |
| Universal Bank | West Covina, CA |
| **Midwest Region** | |
| Dryades Savings Bank, FSB | New Orleans, LA |
| **Southeast Region** | |
| Advance Bank | Baltimore, MD |
| Gulf Federal Bank, a FSB | Mobile, AL |
| Home Federal Savings Bank | Detroit, MI |
| Ideal Federal Savings Bank | Baltimore, MD |
| Illinois Service Federal Savings & Loan Assoc. | Chicago, IL |
| Imperial Savings & Loan Association | Martinsville, VA |
| Independence Federal Savings Bank | Washington, DC |
| Interamerican Bank, FSB | Miami, FL |
| UniBank | Miami, FL |
| **Northeast Region** | |
| Carver Federal Savings Bank | New York, NY |
| Chinatown Federal Savings Bank | New York, NY |
| Ponce de Leon Federal Savings Bank | Bronx, NY |

United States Government Accountability Office

GAO

Report to Congressional Requesters

October 2006

# MINORITY BANKS

## Regulators Need to Better Assess Effectiveness of Support Efforts

GAO

Accountability * Integrity * Reliability

GAO-07-6

GAO

# Highlights

[illegible]

## Why GAO Did This Study

[illegible]

## What GAO Recommends

[illegible]

[illegible]

October 2006

# MINORITY BANKS

## Regulators Need to Better Assess Effectiveness of Support Efforts

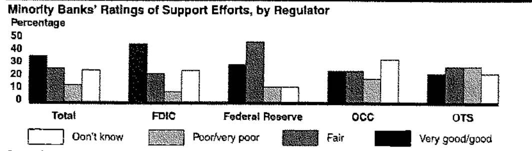
### What GAO Found

The profitability of most large minority banks (assets greater than $100 million) was nearly equal to that of their peers (similarly sized banks) in 2005 and earlier years. However, many small minority banks and African-American banks of all sizes were less profitable than their peers. GAO's analysis and other studies identified some possible explanations for these differences, including relatively higher loan loss reserves and operating expenses and competition from larger banks.

Bank regulators have adopted differing approaches to supporting minority banks, but no agency has regularly and comprehensively assessed the effectiveness of its efforts. FDIC—which supervises over half of all minority banks—has the most comprehensive support efforts and leads interagency efforts. OTS focuses on providing technical assistance to minority banks. While not required to do so by Section 308 of FIRREA, OCC and the Federal Reserve have taken some steps to support minority banks and are planning others. Although FDIC has recently sought to assess the effectiveness of its support efforts through various methods, none of the regulators comprehensively surveys minority banks to obtain their views or has developed outcome-oriented performance measures. Consequently, the regulators are not well positioned to assess their support efforts.

GAO's survey of minority banks identified potential limitations in the regulators' support efforts that would likely be of significance to agency managers and warrant follow-up analysis. Only about one-third of survey respondents rated their regulators' efforts for minority banks as very good or good, while 26 percent rated the efforts as fair, 13 percent as poor or very poor, and 25 percent responded "don't know" (see fig.). Banks regulated by FDIC were more positive about their agency's efforts than banks regulated by other agencies. However, only about half of the FDIC-regulated banks and about a quarter of the banks regulated by other agencies rated their agency's efforts as very good or good. Although regulators may emphasize the provision of technical assistance to minority banks, less than 30 percent of such institutions have used such agency services within the last 3 years and therefore may be missing opportunities to address problems that limit their operations or financial performance.

**Minority Banks' Ratings of Support Efforts, by Regulator**




Source: GAO.

# Contents

**Tables**



**Figures**

**Abbreviations**

| | |
|---|---|
| CRA | Community Reinvestment Act |
| FDIC | Federal Deposit Insurance Corporation |
| FIRREA | Financial Institutions, Reform, Recovery, and Enforcement Act |
| MBDP | Minority Bank Deposit Program |
| MBR | Minority Bankers Roundtable |
| NBA | National Bankers Association |
| OCC | Office of the Comptroller of the Currency |
| OTS | Office of Thrift Supervision |
| ROA | return on assets |

GAO

Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

October 4, 2006

Congressional Requesters

Minority banks are a small community within the banking industry, accounting for about 2 percent of all financial institutions and total industry assets.[1] Despite their small numbers, minority banks can play an important role in serving the financial needs of historically underserved communities, such as African-Americans, and growing populations of minorities, such as Hispanic-Americans and Asian-Americans. For this reason, Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) established goals that federal regulators must work toward to preserve and promote such institutions.[2] For example, the Federal Deposit Insurance Corporation (FDIC) and the Office of Thrift Supervision (OTS), in consultation with the Department of the Treasury (Treasury), are required to provide minority banks with technical assistance and training and educational programs and to work toward preserving the character of minority banks in cases involving

[1]For purposes of this report, the term "minority banks" refers to all depository institutions—including thrifts—that are considered minority- or women-owned by the Department of the Treasury (Treasury) and the federal banking regulators—the Federal Deposit Insurance Corporation (FDIC), the Board of Governors of the Federal Reserve System (Federal Reserve), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS). As discussed in appendix II, FDIC and OTS are subject to the "minority depository institution definition" set forth in Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). Treasury uses different criteria as set forth for eligibility in its Minority Bank Deposit Program (MBDP). OCC and the Federal Reserve employ Treasury's criteria for minority- and women-owned banks (although the Federal Reserve uses both the FIRREA definition and Treasury's for different purposes). Treasury and each of the banking regulators compile lists of institutions that they consider to be eligible to participate in their minority banking efforts. As Section 308 of FIRREA is not aimed at preserving and promoting the minority ownership status of credit unions, we did not include the National Credit Union Administration in our review.

[2]FIRREA, Pub. L. No. 101-73, § 308, 103 Stat. 183, 353 (1989).

mergers or acquisitions of these institutions (we refer to these activities as efforts to support minority banks in our report).[3]

In 1993, we reported on efforts by Treasury, FDIC, and OTS to support minority banks in accordance with Section 308 of FIRREA.[4] At that time, we found that these agencies had taken steps to respond to Section 308, but minority banks we interviewed gave FDIC and OTS mixed reviews on their efforts. In particular, minority banks were concerned that the regulators did not provide adequate technical assistance. Further, minority banks expressed concerns about related regulatory issues, including their view that agency safety and soundness examiners did not fully understand the unique challenges their institutions faced.[5] We recommended that FDIC and OTS periodically survey minority banks to assess the effectiveness of their efforts to support such institutions.

You requested that we follow up on our 1993 report and review all of the federal banking regulators' efforts to support minority banks, including the activities of the Office of the Comptroller of the Currency (OCC) and the Board of Governors of the Federal Reserve System (Federal Reserve), which are not subject to Section 308 of FIRREA.[6] Accordingly, our reporting objectives were to (1) review the profitability of minority banks over time, (2) identify the federal banking regulators' efforts to support minority banks and determine whether the regulators were evaluating the effectiveness of these efforts, and (3) obtain the views of minority banks on the federal regulators' minority banking support efforts and related regulatory issues.

[3]"Technical assistance" is typically defined as one-on-one assistance that a regulator may provide to a bank. For example, a regulator may advise a bank on compliance with a particular statute or regulation. Regulators may also provide technical assistance to banks that is related to deficiencies identified in safety and soundness or compliance examinations. In contrast, education programs are typically open to all banks regulated by a particular agency or to all banks located within a regulator's regional office. For example, regulators may offer training for banks to review compliance with laws and regulations.

[4]GAO, *Minority-Owned Financial Institutions: Status of Federal Efforts to Preserve Minority Ownership*, GAO/GGD-94-1 (Washington, D.C.: Nov. 3, 1993).

[5]Federal banking regulators conduct periodic examinations of banks to assess their financial condition and compliance with laws and regulations, among other activities.

[6]Unless otherwise specified, we use the term "Federal Reserve" throughout this report to refer to the Federal Reserve System. The Federal Reserve System includes the Federal Reserve's Board of Governors and the 12 Federal Reserve Banks.

To address the first objective, we obtained and analyzed financial data for minority banks from FDIC for 2005, 2000, and 1995.[7] We also reviewed background literature and conducted interviews with minority banks to discuss the business environment in which these banks operate. For the second objective, we interviewed officials from the Department of the Treasury, FDIC, Federal Reserve, OCC, and OTS and reviewed regulators' documentation addressing their efforts to support minority banks and assess the effectiveness of these efforts. We also compared the regulators' efforts to our standards for program assessment and performance measures and those established in the Government Performance and Results Act. To address the third objective, we conducted a Web-based survey of all institutions identified by the banking regulators as minority institutions. The survey, which was conducted from March through April 2006, asked about the banks' awareness and use of the regulators' minority bank support efforts and also asked the banks to rate these efforts. We received 149 survey responses out of a total population of 195 minority banks, for a response rate of 76 percent. We also interviewed relevant trade associations and a sample of 19 minority banks throughout the United States that we selected based on type of minority ownership and primary regulator. Appendix I explains our scope and methodology in greater detail. Appendix II describes each regulator's definition of minority-owned and women-owned banks for purposes of eligibility for participation in the regulator's particular minority banking support efforts. Appendix III provides the number of minority banks that responded to each survey question discussed in the report and thereby supplements the use of percentages to summarize these results. All survey questions and the frequencies of responses to each question are presented in a supplemental product that can be found on our Web site at www.gao.gov/cgi-bin/getrpt?GAO-07-7SP.

We conducted our work in Washington, D.C., and New York from December 2005 to September 2006 in accordance with generally accepted government auditing standards.

[7]Because information on minority banks was not available for both 2000 and 1995 from all federal banking regulators, for these periods we analyzed only those minority banks that were still operating as minority institutions in 2005. As a result, minority banks that failed or merged with other institutions between 1995 and 2005 are not included in the analysis for those years. In addition, we were unable to confirm that all 2005 minority banks were operating as minority banks in 1995 and 2000, although the rate of change in ownership among minority banks is low.

## Results in Brief

Our analysis of FDIC data showed that while the profitability of most minority banks with assets greater than $100 million nearly equaled the profitability of all similarly sized banks (peers), the profitability of smaller minority banks and African-American banks of all sizes did not.[8] Profitability is commonly measured by return on assets (ROA), or the ratio of profits to assets, and ROAs are typically compared across peer groups to assess performance.[9] Many small minority banks (those with less than $100 million in assets) had ROAs that were substantially lower than those of their peer groups in 2005 as well as in 1995 and 2000. Moreover, African-American banks of all sizes had ROAs that were significantly below those of their peers in 2005 as well as in 1995 and 2000 (African-American banks of all sizes and other small minority banks account for about half of all minority banks). Our analysis of FDIC data identified some possible explanations for the relatively low profitability of some small minority banks and African-American banks. In particular, some of these banks maintain relatively high reserves for potential loan losses or may have higher operating expenses, such as administrative expenses or salaries, than other banks. The results of other studies we reviewed were consistent with these findings, and minority banks that we spoke with offered additional explanations, such as the effects of increased competition from larger banks. Nevertheless, the majority of officials from banks across all minority groups were positive about their banks' financial outlook, and many saw their minority status as an advantage in serving their communities (for example, in providing services in the language predominantly used by the minority community).

The bank regulators have adopted differing approaches to supporting minority banks, and no agency assessed the results of its efforts through regular and comprehensive surveys of minority banks or outcome-oriented performance measures.[10] FDIC—which supervises more than half of all minority banks—currently has the most comprehensive program to support minority banks and leads an interagency group that coordinates such efforts. Among other things, FDIC has designated officials in the agency's headquarters and regional offices who are responsible for minority bank efforts, holds periodic conferences for minority banks, and

[8]Peer groups include all institutions of a similar asset size, including minority and nonminority institutions. Peer groups were defined by FDIC.

[9]Examples of assets include loans and securities.

[10]Outcome-oriented performance measures assess the results of a program against its intended purposes.

has established formal policies for annual outreach to the banks it regulates to make them aware of available technical assistance. OTS also has staff who are responsible for the agency's efforts to support minority banks, has developed outreach procedures, and focuses its efforts on providing technical assistance. OCC and the Federal Reserve, while not required to do so by Section 308 of FIRREA, have undertaken some efforts to support minority banks, such as holding occasional conferences for Native American banks, and are planning additional efforts. FDIC has proactively sought to assess the effectiveness of its support efforts through, for example, surveying minority banks. However, these surveys have not addressed key activities, such as the provision of technical assistance, and the agency has not established outcome-oriented performance measures for its support efforts. None of the other regulators comprehensively surveys minority banks on their support efforts or has established outcome-oriented performance measures. Consequently, the regulators are not well positioned to assess the results of their minority bank support efforts or identify potential areas for improvement.

In our survey, minority banks identified potential limitations in the regulators' support efforts and related regulatory issues that would likely be of significance to agency managers and may warrant follow-up analysis. Specifically, our survey showed that (1) only about one-third of minority banks view the regulators' support efforts as very good or good; (2) minority banks' usage of the agencies' technical assistance appears to be low; and (3) some minority banks have concerns about related regulatory activities, such as examiners' knowledge of issues that affect their institutions. About 36 percent of survey respondents rated their regulators' efforts for minority banks as very good or good, while 26 percent rated the efforts as fair, 13 percent as poor or very poor, and 25 percent responded "don't know." Banks regulated by FDIC, which had the most extensive program and outreach efforts, were more positive about their agency's efforts than banks regulated by other agencies. However, only about half of the FDIC-regulated banks and about a quarter of the banks regulated by other agencies rated their agency's efforts as very good or good. While FDIC and OTS both emphasize the provision of technical assistance as part of their minority bank efforts, our survey showed that less than 30 percent of institutions regulated by these agencies took advantage of such assistance within the last 3 years. The majority of those banks that used technical assistance, however, found it to be useful. Minority banks regulated by OCC and the Federal Reserve reported similarly low usage of the agencies' technical assistance services. While it is not clear from our survey why relatively few minority banks use the agencies' technical assistance services and regulators cannot compel banks to use such assistance, the potential exists for many such institutions, particularly small and African-American banks, to benefit from assistance that might help improve their operations and financial performance. As with our findings in our 1993 report, some minority bank officials said that examiners do not always understand the challenges that the banks may face in providing services in their communities or operating environments.[11] Although the bank officials said they did not expect special treatment in the examination process, they suggested that examiners needed to undergo more training to improve their understanding of minority banks and the customer base they serve.

This report makes a recommendation designed to help ensure that the bank regulators are better able to understand the reasons behind potential limitations in their support efforts and related activities—particularly the limited use of technical assistance and concerns about examiners' knowledge of minority bank issues—within the minority bank community and to take corrective actions as necessary. Specifically, the report recommends that the federal banking regulators review the effectiveness of their efforts to support minority banks and, in so doing, consider employing the following methods: (1) regularly surveying the minority banks under their supervision on all efforts and regulatory areas affecting these institutions and/or (2) establishing outcome-oriented performance measures to evaluate the extent to which their efforts are achieving their objectives. Regulators may also wish to focus their efforts on obtaining feedback from small minority banks and African-American banks in order to identify and address, if possible, any issues that may be causing the relatively low profitability of some of these institutions.

We provided a draft of this report to FDIC, OTS, OCC, and the Federal Reserve for comment, and they provided written comments that are reprinted in appendixes IV–VII. In their responses, the agencies further elaborated on their existing minority bank efforts and described planned initiatives. Further, FDIC, OTS, and OCC agreed to implement our recommendation, while the Federal Reserve said it would consider implementing it. The agencies also provided technical comments, which were incorporated as appropriate. We also requested comments from the Department of the Treasury on the section of the draft report relevant to

[11]When asked for suggestions about how regulators could improve their efforts to support minority banks, 21 percent of survey responses mentioned this issue. In addition, several minority banks we spoke with in interviews voiced similar opinions.

its activities under Section 308 of FIRREA. Treasury provided us with technical comments, which we have incorporated as appropriate.

## Background

Many minority banks are located in urban areas and seek to serve distressed communities and populations that have traditionally been undeserved by financial institutions. For example, after the Civil War banks were established to provide financial services to African-Americans. More recently, Asian-American and Hispanic-American banks have been established to serve the rapidly growing Asian and Hispanic communities in the United States. In our review of regulators' lists of minority banks, we identified a total minority bank population of 195 for 2005 (table 1).

**Table 1: Number and Percentage of Minority Banks, by Type, 2005**

| Type of minority bank | Number of banks | Percentage of all minority banks |
|---|---|---|
| Asian-American[a] | 73 | 37 |
| African-American | 46 | 24 |
| Hispanic-American | 38 | 19 |
| Native American | 20 | 10 |
| Women-owned | 13 | 7 |
| Other[b] | 5 | 3 |
| **Total** | **195** | **100** |

Source: GAO analysis of Treasury and federal banking regulators' data.

Note: We identified the total minority bank population by obtaining and reviewing the most current lists (available at the time the population was compiled) from the federal banking regulators and Treasury. We reviewed FDIC and the Federal Reserve's publicly available lists, which were current as of September 30, 2005. We also reviewed OCC's list from December 31, 2005, Treasury's most recent list from 2004, and OTS's from January 2006.

[a]Asian-American includes individuals of Pacific Island descent.

[b]The "other" category includes banks considered to have minority status that are not covered by the listed minority categories. "Other" also includes banks that are owned or managed by more than one minority group in accordance with a banking regulator's definition.

Table 2 shows that the distribution of minority banks by size is similar to the distribution of all banks by size. More than 40 percent of all minority banks had assets of less than $100 million.

Table 2: Percentage of Minority Banks and Total Banking Industry, by Asset Size, 2005

| Asset size | Percentage of minority banks | Percentage of total banking industry |
|---|---|---|
| < $100 million | 42 | 44 |
| $100 million to $300 million | 32 | 33 |
| $300 million to $500 million | 9 | 9 |
| $500 million to $1 billion | 7 | 7 |
| $1 billion to $10 billion | 7 | 6 |
| > $10 billion | 3 | 1 |
| **Total** | **100** | **100** |

Source: GAO analysis of FDIC data.

Each federally insured depository institution, including each minority bank, has a primary federal regulator: FDIC, OTS, OCC, or the Federal Reserve. The primary regulator for each bank is determined by the institution's charter (table 3).[12]

Table 3: Federal Bank Regulator Bank Supervisory Responsibilities, by Bank Charter

| Regulator | Type of bank |
|---|---|
| FDIC | State-chartered banks that are not members of the Federal Reserve System |
| OTS | Federally chartered and state-chartered savings associations and registered savings and loan holding companies |
| OCC | Nationally chartered banks and federal branches of foreign banks |
| Federal Reserve | State-chartered banks in the Federal Reserve System, bank holding companies, and international banking facilities within the United States |

Source: FDIC, OTS, OCC, and the Federal Reserve

[12]Throughout the report, we refer to thrifts as banks.

As shown in table 4, FDIC serves as the federal regulator for over half of minority banks—109 out of 195 banks, or 56 percent—and the Federal Reserve regulates the fewest.[13]

**Table 4: Number of Minority Banks, by Regulator, 2005/2006**

| Regulator | Number of minority banks | Percentage |
|---|---|---|
| FDIC | 109 | 56 |
| OCC | 43 | 22 |
| OTS | 22 | 11 |
| Federal Reserve | 21 | 11 |
| **Total** | **195** | **100** |

Source: GAO analysis of Treasury and the federal banking regulators' data.

Note: Treasury and the banking regulators have different criteria for the banks they consider to be eligible to participate in their minority bank efforts (see app. II). In accordance with our request, in our population of minority banks we included any bank considered by at least one regulator to be eligible to participate in its efforts. There are cases where minority banks not considered by their primary regulator to be minority institutions were considered to be eligible for participation in another regulator's efforts. Ten minority banks regulated by FDIC were such cases, as were 4 Federal Reserve banks, 1 OTS bank, and 3 OCC banks.

The primary responsibilities of federal banking regulators include helping to ensure the safe and sound practices and operations of the institutions they oversee, the stability of financial markets, and compliance with laws and regulations. To achieve these goals, among other activities, the regulators conduct on-site examinations, issue regulations, conduct investigations, and take enforcement actions. Regulators may also close banks that are deemed to be insolvent and pose risks to the Deposit

[13]In our 1993 report, we reported that FDIC supervised 52 minority banks and OTS supervised 41 minority banks as of March 1993. OCC officials told us that their agency regulated 42 minority banks in 1993, and the Federal Reserve reported that it regulated 16 in 1993.

Insurance Fund.[14] FDIC is responsible for ensuring that deposits in failed banks are protected up to established federal deposit insurance limits.[15]

Banking regulators primarily focus on ensuring the safety and soundness of banks, but laws and regulatory policies can identify additional goals and objectives. Recognizing the importance of minority banks, under Section 308 of FIRREA, Congress outlined five broad goals that FDIC and OTS, in consultation with Treasury, are to work toward to preserve and promote minority banks. These goals are

- preserving the present number of minority banks;
- preserving their minority character in cases involving mergers or acquisitions of minority banks;
- providing technical assistance to prevent the insolvency of institutions that are not currently insolvent;
- promoting and encouraging the creation of new minority banks; and
- providing for training, technical assistance, and educational programs.

Technical assistance is typically defined as one-on-one assistance that a regulator may provide to a bank in response to a request. For example, a regulator may advise a bank on compliance with a particular statute or regulation. Regulators may also provide technical assistance to banks that is related to deficiencies identified in safety and soundness or compliance examinations. In contrast, educational programs are typically open to all banks regulated by a particular agency or to all banks located within a

[14]The Deposit Insurance Fund is the fund that provides deposit insurance for banks and thrifts and is administered by FDIC.

[15]For most of FDIC's history, purchase and assumption agreements—during which a healthy bank purchases some or all of the assets of a failed bank, as well as some or all of its liabilities—have been the preferred resolution method for troubled and failed banks. Under this method, FDIC values and markets the institutions and closes the institutions. The other two resolution methods FDIC has employed are (1) a deposit payoff, in which FDIC is the appointed receiver and all depositors with insured funds are paid the full amount of their deposits (depositors with uninsured funds and other general creditors of the failed bank are given receivership, entitling them to a share of the net proceeds from the sale of the bank's assets); and (2) an open bank assistance agreement under which FDIC provides financial assistance to an operating insured bank that is in danger of closing by making loans to the bank, purchasing assets, or placing deposits in the troubled bank.

regulator's regional office. For example, regulators may offer training for banks to review compliance with laws and regulations.

## Larger Minority Banks Showed Profitability Close to That of Their Peers and Historical Benchmarks, but Many Small and African-American Banks Have Been Less Profitable

Most minority banks with assets exceeding $100 million were nearly as profitable—measured by ROA—as their peers in 2005 as well as in earlier years, or had levels of profitability that have historically been considered adequate, according to our analysis of FDIC data. However, small minority and African-American banks of all sizes (which together account for about half of all minority institutions) have been significantly less profitable than their industry peers. Our analysis and other research has suggested some possible reasons for lower profitability among some small minority banks and African-American banks, such as higher reserves for potential loan losses and higher operating expenses. The results of other studies we reviewed were consistent with these findings, and minority banks that we spoke with offered additional explanations, such as the effects of increased competition from larger banks. However, overall officials from banks across all minority groups were positive about the financial outlook of their institutions. Many found their minority status to be an advantage in serving their communities—for example, in communicating with customers in their primary languages.

### Small and African-American Banks' Profitability Was Lower than That of Peers

As shown in figure 1, most minority banks with assets exceeding $100 million had ROAs in 2005 that were close to those of their peer groups, while many smaller banks had ROAs that were significantly lower than that of their peers.[16] Minority banks with more than $100 million in assets accounted for 58 percent of all minority banks, while those with less than $100 million accounted for 42 percent.[17] Each size category of minority banks with more than $100 million in assets had a weighted average ROA that was slightly lower than that of its peers, but in each case their ROAs exceeded 1 percent.[18] By historical banking industry standards, an ROA of 1 percent or more has generally been considered an adequate level of

[16]Some minority banks were established relatively recently (between 2002 and 2006). Although newer banks tend to be less profitable than older banks, we found that, in 2005, generally both older and newer small banks had significantly lower ROAs than their peers.

[17]The banking industry as a whole has an asset size distribution similar to that of minority banks (table 2).

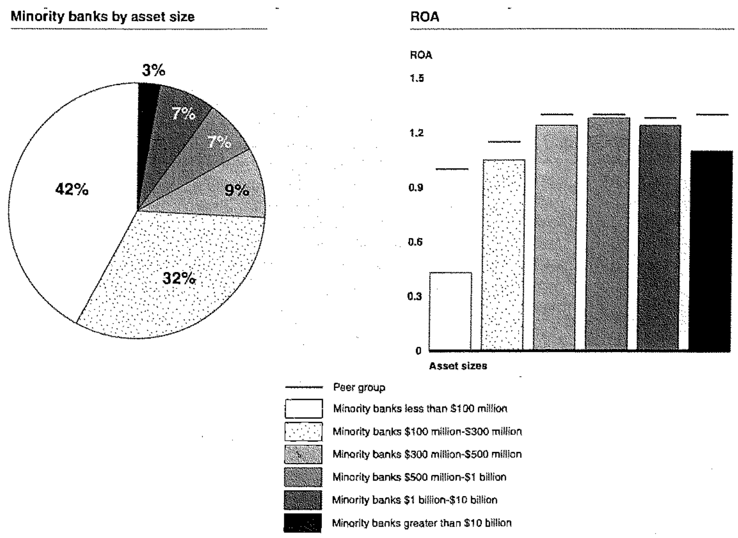
[18]A weighted average is a variation on a simple average. Weighted averages take into account banks' asset size instead of counting each bank as an equal unit.

profitability. We found that of these larger minority banks, Hispanic-American, Asian-American, Native American, and women-owned banks were close to, and in some cases exceeded, the profitability of their peers in 2005.

Overall, small minority banks (those with assets of less than $100 million) had an average ROA of 0.4 percent, and their peers had an average ROA of 1 percent. Our analysis of FDIC data for 1995 and 2000 also indicated some similar patterns, with minority banks with assets greater than $100 million showing levels of profitability that were generally close to those of their peers, or ROAs of about 1 percent, while minority banks with assets of less than $100 million showed greater differences with their peers. Further, in 2000 the Chairman of FDIC discussed the agency's finding that many small minority banks lagged in profitability. According to FDIC's analysis, nearly 70 percent of small minority banks reported an ROA in 1999 of under 1 percent, and nearly 40 percent reported an ROA of less than half the industry average.[19]

[19]Donna Tanoue, "Remarks By Donna Tanoue, Chairman Federal Deposit Insurance Corporation before The National Bankers Association, Chicago, Illinois October 4, 2000," FDIC. Available at http://www.fdic.gov/news/news/speeches/archives/2000/sp04Oct00.html.

**Figure 1: Percentage of Minority Banks by Size and Average ROA for Minority Banks and Peer Groups by Asset Size, 2005**

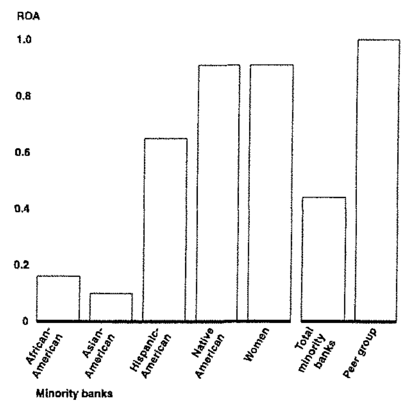



Source: GAO.

Among small minority banks, African-American, Asian-American, and Hispanic-American banks had ROAs that were significantly lower than those of their peers, while the ROAs of small Native American and women-owned banks were closer to those of their peers (fig. 2). For example, the ROA for small Asian-American banks in 2005 was 0.10 percent and Hispanic-American banks' ROA was 0.65 percent, compared with their peers' ROA of 1 percent. Our analysis of FDIC data for 1995 and 2000 showed similar results, with small African-American, Asian-American, and

Hispanic-American banks in particular having significantly lower ROAs than their peers.[20]

**Figure 2: Average ROA of Small Minority Banks, 2005**




Source: GAO analysis of FDIC data.

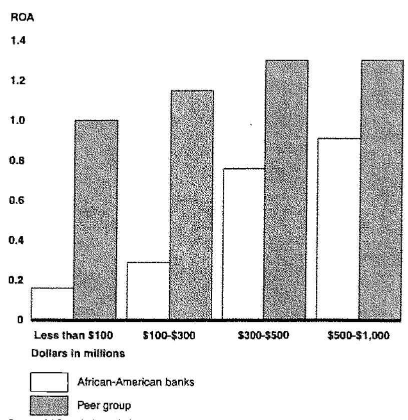
The profitability of African-American banks has generally been below that of their peers in all size categories (fig. 3).[21] African-American banks with less than $100 million in assets—which constitute 61 percent of all

[20]The findings from our analysis of ROAs were consistent with our analysis of another measure of profitability—return on equity (ROE). ROE represents the bank's net income divided by shareholders' equity. As with ROA comparisons, small minority banks had on average lower ROEs than their peers (3.83 versus 8.09). And consistent with our ROA analysis, among small minority banks, African-American (ROE of 1.54), Asian-American (0.72), and Hispanic-American banks (6.11) had lower ROEs than Native American (8.69) and women-owned institutions (8.39). Further, African-American banks with assets of between $100 million and $300 million had ROEs that were significantly lower, on average (3.45), than those of their peers (11.03).

[21]In 2005, African-American banks did not occupy all asset size categories. The largest African-American banks had less than $1 billion in assets, and these banks were not found in the largest size categories: $1 billion to $10 billion and greater than $10 billion.

African-American banks—had an average ROA of 0.16 percent, while their peers averaged 1.0 percent. Similarly, African-American banks with assets of between $100 million and $300 million—which constituted 26 percent of all African-American banks—had ROAs that were 75 percent lower than those of their peers. While profitability improved among larger categories, the profitability of African-American banks with assets of $300 million or more was lower than that of their peers. Our analysis of FDIC data for 2000 and 1995 also found that African-American banks of all sizes had lower ROAs than their peers. For example, in 2000 African-American banks with assets of between $100 million and $300 million had an average ROA that was about half of their peers' average of 1.2 percent.

**Figure 3: Average ROA of African-American Banks and Peer Banks by Asset Size, 2005**




Source: GAO analysis of FDIC data.

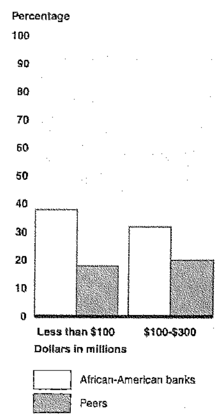
## Higher Loan Loss Reserves, Operating Costs, and Increased Competition May Help Explain Lower Profitability of Certain Minority Banks

Our analysis of 2005 FDIC data suggests some possible reasons for the differences in profitability between some minority banks and their peers.[22] For example, our analysis of 2005 FDIC data showed that African-American banks with assets of less than $300 million—which constitute 87 percent of all African-American banks—had significantly higher loan loss reserves as a percentage of their total assets than the average for their peers (fig. 4).[23] Although having higher loan loss reserves may be necessary for the safe and sound operation of any particular bank, because loan loss reserves are counted as expenses, higher reserves lower bank profits. Most Asian-American, Hispanic-American, Native American, and women-owned banks had loan loss reserves that were closer to the average for their peer group in 2005.

[22]While our review offers possible explanations for lower levels of profitability among some minority banks, it does not attempt to fully explain the differences among various minority groups or sizes of minority banks.

[23]The term "loan loss reserves" refers to the allowance each bank must maintain to absorb estimated credit losses associated with its loan and lease portfolio.

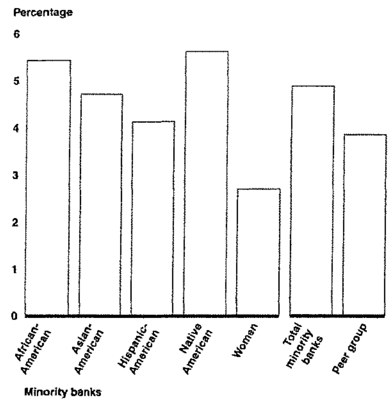
Figure 4: Average Loan Loss Reserves as a Percentage of Assets for African-American and Peer Banks, 2005




Source: GAO analysis of FDIC data.

We also found some evidence that higher operating expenses may affect the profitability of some minority banks. Operating expenses—expenditures for items such as administrative expenses and salaries—are typically compared to an institution's total earning assets, such as loans and investments, to indicate the proportion of earning assets banks spend on operating expenses. As figure 5 indicates, many minority banks with less than $100 million in assets had higher operating expenses than their peers in 2005. Specifically, the average ratio of minority banks' operating expenses to earning assets was 4.88 percent, compared with an average 3.86 percent for the peer group, or a difference of 21 percent.

**Figure 5: Average Operating Expenses Relative to Earning Assets of Banks with Assets Less than $100 million, 2005**




Source: GAO analysis of FDIC data

Small African-American and Asian-American banks had higher operating expenses than their peers (41 and 20 percent higher, respectively), while operating expenses for small Hispanic-American banks were closer to their peers (7 percent higher). Data on the operating expenses of small women-owned banks were lower than their peers, while Native American banks had higher operating expenses, although, as we have seen, both Native American and women-owed banks were the most profitable of small minority banks. Because larger African-American banks were relatively less profitable than their peers, we also reviewed FDIC data on their operating expenses in 2005. The FDIC data indicate that African-American banks with assets of between $100 million and $500 million had operating expense ratios that exceeded those of their respective peer groups by 20 percent or more. Other studies corroborated our findings that some minority banks operate in more challenging markets and may face higher operating costs.[24]

Officials from several minority banks we contacted also described aspects of their operating environments and business practices, including a focus on customer service that could result in higher operating costs. In particular, the officials cited the costs associated with providing banking services in low-income urban areas or in communities with high immigrant populations. Bank officials also told us that they focus on fostering strong customer relationships, sometimes providing financial literacy services. Consequently, these banks spend more time and resources on their customers per transaction than other banks as part of their mission. Other minority bank officials said that their customers made relatively small deposits and preferred to do business in person at bank branch locations rather than through potentially lower-cost alternatives, such as over the phone or the Internet.

Along with these factors, minority bank officials we contacted cited other factors that could limit their profitability. First, many minority banks indicated competition from larger banks, credit unions, and nonbanks as their institution's greatest challenge. In particular, minority bank officials said that larger banks, in response to Community Reinvestment Act (CRA) incentives, were increasingly posing competitive challenges among the banks' traditional customer base.[25] The bank officials said that larger banks could offer loans and other financial products at more competitive prices because these banks could raise funds at lower rates and had advantageous operational efficiencies. Second, some African-American, Asian-American, and Hispanic-American banks cited attracting and retaining quality staff as a challenge to profitability. Officials from one Hispanic-American bank said that the difficulty of attracting qualified new staff restricted the bank's growth. An Asian-American banker said that

[24]Zahid Iqbal, Kizhanathan V. Ramaswamy, and Aigbe Akhigbe, "The Output Efficiency of Minority-Owned Banks in the United States," *International Review of Economics and Finance*, vol. 8 (1999) p. 113; Iftekhar Hasan and William C. Hunter, "Management Efficiency in Minority- and Women-owned banks," *Economic Perspectives*, vol. 20 (1996). Edward C. Lawrence, "The Viability of Minority-Owned Banks," *The Quarterly Review of Economics and Finance*, vol. 37, no. 1 (1997).

[25]Section 807 of the Community Reinvestment Act of 1977 requires the federal banking regulators in connection with their examination of each institution they supervise to assess the institution's record of meeting the credit needs of the entire community it serves, including moderate- and low-income neighborhoods. Pub. L. No. 95-128, § 807, 91 Stat. 1147 (codified as amended at 12 U.S.C. § 2906).

many Asian-American banks tended to focus on the Asian-American market, potentially limiting the pool of qualified applicants.

Despite these challenges, officials from banks across minority groups were optimistic about the financial outlook for their institutions. When asked in our survey to rate their financial outlook compared to those of the past 3 to 5 years, 65 percent said it would be much or slightly better; 21 percent thought it would be about the same, and 11 percent thought it would be slightly or much worse, while 3 percent did not know. Officials from minority banks said that their institutions had advantages in serving minority communities. For example, officials from an Asian-American bank said that the staff's ability to communicate in customers' primary language provided a competitive advantage.

## Regulators Adopted Differing Approaches to Supporting Minority Banks, but Assessment Efforts Were Limited

FDIC has established the most comprehensive efforts among the bank regulators to support minority banks and also leads interagency efforts to coordinate agencies' activities. OTS also has developed several specific initiatives to support minority banks. While not required to do so by Section 308 of FIRREA, OCC and the Federal Reserve have taken some steps to support minority banks, such as holding occasional conferences for Native American banks, and are planning additional efforts. Treasury, which FIRREA stipulates is to consult with FDIC and OTS on preserving minority banks, no longer does so on a routine basis, but Treasury officials told us that the agency does confer with the banking agencies on an as-needed basis. Although recently FDIC has proactively sought to assess the effectiveness of its efforts to support minority banks, none of the regulators routinely survey institutions they regulate to obtain comprehensive performance information on their minority bank efforts, nor have they established outcome-oriented performance measures to gauge results in relation to pre-established targets. As a result, the regulators are not well positioned to assess the results of their efforts to support minority banks or identify potential areas for improvement.

### FDIC Has the Most Comprehensive Minority Banking Support Efforts

Of the four banking regulators, FDIC—which supervises 109 of 195 minority banks—has developed the most extensive efforts to support such institutions (fig. 6). FDIC also has taken the lead in coordinating regulators' efforts in support of minority banks, including leading a group of all the banking regulators that meets semiannually to discuss individual agency initiatives, training and outreach events, and each agency's list of minority banks. FDIC and OTS have established national and regional coordinators to implement their policies to support minority banks and provide routine technical and other outreach procedures for the institutions that they regulate. OCC officials we contacted said that they believed that minority banks could play an important role in providing financial services to minorities and other groups, and Federal Reserve officials told us that they adhered to the spirit of Section 308 of FIRREA. While neither agency has developed support efforts designed specifically for all the minority institutions that they regulate, both agencies provide technical assistance and educational services to minority banks upon request, as they do for all of their supervised banks, and have undertaken efforts in support of some types of minority banks. Both agencies also told us that they were planning additional efforts to support minority institutions.

**Figure 6: Banking Regulators' Efforts to Support Minority Banks**

| | FDIC | OTS | OCC (not under Section 308) | Federal Reserve (not under Section 308) |
|---|---|---|---|---|
| Policy statement | | | | |
| Staffing structure | | | | |
| Web page with resources for minority banks | | | | |
| Holds events for minority banks[a] | | | | |
| Technical assistance and other outreach procedures | | | | |
| Written policy for troubled/failing minority banks | | | | |

Source: GAO.

[a]FDIC holds conferences for all minority banks on a regular basis. OTS, OCC, and the Federal Reserve have hosted occasional events for some groups of minority banks.

The following briefly describes the regulators' minority bank support programs, as listed in figure 6.

## Policy Statements

FDIC, OTS, and OCC all have policy statements that outline the agencies' efforts with respect to minority banks. The policy statements discuss how the regulators identify minority banks, participate in minority bank events, provide technical assistance, and work toward preserving the character of minority banks during the resolution process. OCC officials told us that they developed their policy statement in 2001 after an interagency meeting of the federal banking regulators on minority bank issues. Both FDIC and OTS issued policy statements in 2002.

### Staffing Structure

FDIC has a national coordinator in Washington, D.C., and coordinators in each regional office from its Division of Supervision and Consumer Protection to implement the agency's minority bank program. Among other responsibilities, the national coordinator regularly contacts minority bank trade associations about participation in events and other issues, coordinates with other agencies, maintains FDIC's list of all insured banks that are considered to be minority under the agency's definition, and compiles quarterly reports for the FDIC chairman based on regional coordinators' reports on their minority bank activities. Similarly, OTS has a national coordinator in its headquarters and supervisory and community affairs staff in each region who maintain contact with the minority banks that OTS regulates. The national coordinator participates in the interagency coordination meetings with the other banking regulators and works with the regional community affairs staff to compile the agency's annual report to Congress on minority bank issues. OCC and the Federal Reserve do not have similar structures in place. However, OCC does have an agency ombudsman who maintains contact with minority banks and a senior adviser for external outreach and minority affairs who participates in the interagency coordination meetings. Officials from the Federal Reserve—which directly supervises the fewest number of minority banks—told us that Federal Reserve staff at the district level maintain frequent contact with minority banks under their purview and Federal Reserve staff participate in interagency coordination meetings.

### Web Pages

FDIC has a public Web page dedicated specifically to minority banking issues that includes FDIC's list of all minority banks, staff contacts, links to trade associations and other relevant sites, and a link to provide feedback on FDIC's minority banking efforts. FDIC officials told us that the feedback link has been on their Web page since 2002 but that the agency rarely receives feedback from minority banks. FDIC is planning to improve its Web page by adding a link to FDIC's home page and additional resources, including research highlighting issues relevant to minority banks.

OCC also has a Web page that contains some information on minority bank issues. The Web site containing this page, BankNet, is available to registered national banks. OCC's Web site is not as extensive as FDIC's but does contain a list of minority banks that OCC regulates, links to OCC's minority bank policy statement, and a comparative analysis tool to compare the financial performance of minority banks with that of their peers.

### Minority Bank Events and Training

FDIC has taken the lead role in sponsoring, hosting, and coordinating with the other regulators events in support of minority banks. These events have included

- A national conference in 2001, which was attended by about 70 minority banks supervised by different banking regulators and in which all four banking regulators participated. Participants discussed challenges, shared best practices, and evaluated possible actions regulators could take to preserve minority banks.
- In August 2006, FDIC sponsored a national conference for minority banks in which representatives from OTS, OCC, and the Federal Reserve participated.
- Regional forums and conferences, which were organized after 2002 to follow up on the national conference and implement initiatives set forth in FDIC's 2002 policy statement. FDIC officials told us that these events are held annually by each of their regional offices. The content of these events has varied among regions, but has included issues relating to safety and soundness and compliance examinations, community affairs, deposit insurance, and FDIC's minority banking program. Representatives from other banking agencies have participated in these events.
- The Minority Bankers Roundtable (MBR) series, which FDIC officials told us was designed to provide insight into the regulatory relationship between minority banks and FDIC and explore opportunities for partnerships between FDIC and these banks. In 2005, FDIC held six roundtables around the country for minority banks supervised by all of the regulators.

Other regulators have also held events in support of minority banks. For example:

- In May 2006, the Director, Deputy Director, and the Northeast Regional Director of OTS held a meeting in New York in which all of the OTS-regulated minority banks in the region participated. The issues discussed included ways to strengthen community development and investment activities and partnerships with community-based organizations, and other issues of concern.

- In 2002, OCC held a forum with the North American Native Bankers Associations and a Native American bank and have created publications on banking in Native American communities. In February 2006, OCC held an event for several chief executive officers from African-American national banks to meet with OCC's Executive Committee and the Comptroller of the Currency to discuss the challenges these banks faced.
- Federal Reserve banks have hosted workshops and other events for Native American banks, as well as produced publications on Native American banking.

Outside of the customary training and educational programs that regulators make available to all banks, FDIC is the only regulator to convene training sessions only for minority banks (including minority banks not regulated by FDIC) that the banks may attend free of charge. FDIC officials told us that the agency's regional offices have held several such training sessions on an as-needed basis or when suggested at minority bank events. For example, FDIC's Dallas regional office has conducted 1-day seminars in 2004 and 2005 specifically for minority banks that included presentations on compliance, the Bank Secrecy Act and anti-money-laundering issues, and economic and banking conditions.

### Technical Assistance and Other Outreach Procedures

All of the federal banking regulators told us that they provided their minority banks with technical assistance if requested, but only FDIC and OTS have specific procedures for offering this assistance. More specifically, FDIC and OTS officials told us that they proactively seek to make minority banks aware of such assistance through established outreach procedures outside of their customary examination and supervision processes. FDIC also has a policy that requires its regional coordinators to ensure that examination case managers contact minority banks 90 to 120 days after an examination to offer technical assistance in any problem areas that were identified during the examination. This policy is unique to minority banks. As part of their quarterly reports to headquarters, FDIC regional coordinators report on how many offers of technical assistance they have made to minority banks and how many banks requested the assistance. More generally, FDIC staff contact the minority banks they supervise at least once a year to offer to have a member of regional management meet with banks' board of directors and to familiarize the institutions with FDIC's initiatives.

OTS officials told us that technical assistance is the focus of their minority banks efforts. According to the agency's policy statement, OTS monitors the financial condition of minority banks to identify those that might benefit from a program of increased support and technical assistance. OTS regional staff contact minority banks they supervise annually to make them aware of their minority bank efforts and to offer to meet with the banks' boards of directors to discuss issues of interest and types of assistance OTS can provide.

Additionally, FDIC and OTS officials told us that they have taken proactive steps to assist individuals or groups that have filed applications for deposit insurance or to acquire a national thrift charter. FDIC officials said that they had developed a package of assistance to help smaller institutions, including many minority banks, overcome challenges associated with the FDIC insurance application process. OTS officials said that they had provided substantial assistance to a minority group that filed to acquire a national thrift charter and had extended established application deadlines to assist the group. FDIC officials said that the agency interprets FIRREA's general goal to "promote and preserve" minority banks as a charge to support those minority banks already in existence or those that have filed deposit insurance applications rather than as a charge to actively seek out minority groups or individuals to form new banks. FDIC officials explained that the agency was an insurer, not a chartering authority, and that it would probably be inappropriate to encourage potential applicants to choose one banking charter over another. OTS officials told us that the agency currently does not promote the thrift charter to any groups but is considering the extent to which it might do so in the future.

OCC and the Federal Reserve provide technical assistance to all of their banks, but they currently have not established outreach procedures for all their minority banks outside of the customary examination and supervision processes. However, OCC officials told us that the agency would be designing an outreach plan for all of OCC's minority banks this fiscal year. Federal Reserve officials told us that Federal Reserve districts conduct informal outreach to their minority banks and consult with other districts on minority bank issues as needed. The officials said that four reserve banks had begun a pilot outreach program specifically tailored to minority banks that would include technical assistance, training, advisory visits, and ongoing analysis. Staff are in the process of conducting interviews with minority banks to obtain input on their draft program.

OCC and Federal Reserve officials told us that, like FDIC and OTS, their agencies also provided assistance to minority groups during the application process and that they put forth extra effort in certain cases. For example, Federal Reserve officials told us that they had recently assisted 15 sovereign tribal nations in establishing a Native American bank. And like FDIC and OTS, neither OCC nor the Federal Reserve seeks out individuals to form either minority or nonminority banks. OCC agency officials said it would not be appropriate for their agency to do so, and Federal Reserve officials told us that it was not within their jurisdiction to do so, as they did not have authority to charter banks. The Federal Reserve, however, has conducted activities such as providing information to Native American, Muslim, and Asian-American communities on entering the banking business.

### Policies to Preserve the Minority Character of Troubled Banks

FDIC has developed policies for failing banks that are consistent with FIRREA's requirement that the agency work to preserve the minority character of minority banks in cases of mergers and acquisitions. For example, FDIC maintains a list of qualified minority banks or minority investors that may be invited to bid on the assets of troubled minority banks that are expected to fail. Officials from several minority banks we contacted said that FDIC had invited them to bid on failing minority banks. However, as we pointed out in our 1993 report, FDIC is required to accept the bids on failing banks that pose the lowest expected cost to the Deposit Insurance Fund.[26] As a result, all bidders, including minorities, are subject to competition. FDIC provided us with a list of minority banks that had failed from 1990 to 2005. Of the 20 minority banks that failed during this period, 12 were acquired by nonminority banks and 5 by minority banks, while 3 were resolved through deposit payoffs. According to FDIC, the most recent failures of minority banks were two institutions in 2002, neither of which retained its minority status.

OTS and OCC's policy statements on minority banks describe how the agencies are to work with FDIC to identify qualified minority banks or minority investors to acquire minority banks that are failing. Federal Reserve officials told us that they do not have a similar written policy, given the small number of minority banks the agency supervises. However, agency officials said that they work with FDIC to identify qualified minority banks or investors to acquire failing minority banks.

Officials from the four banking agencies said that they also tried to assist troubled minority banks to help improve their financial condition before a bank deteriorated to the point at which a resolution through FDIC was

[26]Section 13(c) of the Federal Deposit Insurance Act [12 U.S.C. § 1823(c)], as amended in 1991, prohibits FDIC from engaging in the assisted resolution of any failed depository institution unless FDIC determines that the total amount of expenditures and obligations it will incur is the least costly alternative.

necessary. For example, officials from OCC, Federal Reserve, and OTS said that they provided technical assistance to such institutions or tried to identify other minority banks or investors that might be willing to acquire or merge with them.

## Treasury No Longer Regularly Consults with Regulators on Minority Bank Issues but Does Consult on an As-Needed Basis

Section 308 of FIRREA required the Secretary of the Treasury to consult with FDIC and OTS to determine the best methods for meeting FIRREA's goals in support of minority banks. In 1993, we reported that Treasury initially convened interagency meetings to facilitate communication among the federal banking regulators on minority banking issues. Treasury convened four such meetings between 1990 and 1993 at which regulators exchanged ideas, discussed policies regarding minority banks, and worked to coordinate their efforts. However, during our work for this report, Treasury officials said that the department no longer convened or participated regularly in interagency discussions on minority banking issues, although it still consulted with the federal banking regulators as issues arose. Treasury officials explained that while the nature of the FIRREA consulting requirement could be open to some interpretation, given that Treasury had discontinued formal consultations in 1993, the general view within the department is that ongoing consultations were not required. Further, Treasury officials said the department's authority to assist the banking regulators in preserving the minority character of failing minority banks was limited by federal legislation that prohibits the Secretary of the Treasury from intervening in matters or proceedings that are before the Director of OTS or the Comptroller of the Currency, unless otherwise specifically provided by law.[27] According to these officials, Section 308 of FIRREA does not override this prohibition, which is also consistent with Treasury's policy not to intervene in case-specific matters before the banking agencies.

## Regulators Do Not Assess Efforts through Comprehensive Surveys or Outcome-Oriented Performance Measures

While FDIC has recently been proactive in assessing its support efforts for minority banks, none of the regulators have routinely and comprehensively surveyed their minority banks on all issues affecting the institutions, nor have the regulators established outcome-oriented performance measures. Evaluating the effectiveness of federal programs is vitally important in order to manage programs successfully and improve program results. To this end, in 1993 Congress enacted the Government

[27] 12 U.S.C. § 1462a(b)(3) and 12 U.S.C. § 1.

Performance and Results Act, which instituted a governmentwide requirement that agencies report on their results in achieving their agency and program goals.[28] Agencies can evaluate the effectiveness of their efforts by establishing performance measures or through program evaluation.[29] Performance measures are established in order to assess whether a program has achieved its objectives and are expressed as measurable, quantifiable indicators. Outcome-oriented performance measures assess a program activity by comparing it to its intended purpose or targets.[30] Program evaluations are systematic studies that are conducted periodically to assess how well a program is working. In our 1993 report, we recommended that FDIC and OTS periodically survey minority banks that they regulate to help assess their support efforts. Surveys are an instrument by which agencies may assess their efforts and obtain feedback from the recipients of their efforts on areas for improvement.

As part of its assessment methods, FDIC has recently conducted roundtables and surveyed minority banks on aspects of its minority bank efforts, as follows:

- In 2004, in response to an FDIC Corporate Performance Objective to enhance minority bank outreach efforts, FDIC completed a review of its minority bank outreach program that included a survey of 20 minority banks from different regulators. Seven banks responded. On the basis of the 2004 review, FDIC established the MBR program to gain insights into issues affecting minority banks and obtain feedback on its efforts.
- In 2005, FDIC requested feedback on its minority bank efforts from institutions that attended the agency's six MBRs (which approximately one-third of minority banks attended). The agency also sent a survey letter to all minority banks to seek their feedback on several proposals to better serve such institutions, but only 24 minority banks responded. The proposals included holding another national minority bank conference, instituting a partnership program with universities, and developing a

[28] GAO, *Managing for Results: Enhancing Agency Use Performance Information for Management Decision Making*, GAO-05-927 (Washington, D.C.: Sept. 9, 2005); and GAO, *The Results Act: An Evaluator's Guide to Assessing Agency Annual Performance Plan*, GAO/GGD-10.1.20 (Washington, D.C.: April 1998).

[29] GAO, *Performance Measurement and Evaluation: Definition and Relationship*, GAO-05-739SP (Washington, D.C.: May 2005).

[30] Government Performance and Results Act of 1993 § 7, 39 U.S.C. 2801(1).

minority bank museum exhibition.[31] FDIC officials said that they used the information gathered from the MBRs and the survey to develop recommendations for improving programs and developing new initiatives.

According to FDIC officials, these recommendations, which have been approved and are expected to be implemented by the end of 2006, include

- enhancing the agency's minority bank Web page by (1) adding a link to FDIC's home page, (2) including a calendar of minority bank events, and (3) adding more resource links, such as links to research highlighting issues relevant to minority banks;
- hosting another national conference for minority banks—the conference was held in August 2006;
- continuing the MBR series and hosting six more roundtables in 2006; and
- instituting the University Partnership Program, through which FDIC and minority bank staff would advise and lecture at universities that have an emphasis on minority student enrollment. The goals of the program include enhancing recruiting efforts for minority banks and FDIC and increasing students' knowledge base of banking in general and minority banks in particular.

While recently FDIC has taken steps to assess the effectiveness of its minority bank support efforts, we identified some limitations in the agency's approach. For example, in its surveys of minority banks, the agency did not solicit feedback on key aspects of its support efforts, such as the provision of technical assistance. Moreover, FDIC has not established outcome-oriented performance measures to gauge the effectiveness of its various support efforts. As discussed previously, in its quarterly reports FDIC has provided output measures that track the number of technical assistance offers it makes to minority banks and the number of banks making use of the assistance. FDIC also requires regional case managers to follow up with minority banks 90 to 120 days after examinations to offer technical assistance to address deficiencies that

[31]This project was to develop a museum exhibition that would trace the history of minority banks in the United States. However, after conducting additional research on this proposal, FDIC is currently not pursuing the project, in part because of limited interest from some minority banks.

have been identified in examinations. However, FDIC does not report agencywide on the extent to which minority banks are able to resolve any deficiencies found during the examination process.

FDIC officials told us while the agency has not conducted surveys regarding technical assistance or developed related performance measures, technical issues may be resolved during the course of the examination process. Further, FDIC officials said that throughout the examination process and through other agency contacts, minority banks may informally provide feedback on the effectiveness of any assistance provided. However, without surveys or agencywide outcome-oriented performance measures, FDIC management may lack comprehensive and reliable information necessary to help ensure that agency staff provide effective technical assistance to minority banks to help them resolve problems identified in examinations or through other means. Further, the public and stakeholders, such as Congress, may not be informed as to the effectiveness of the agency's technical assistance, as well as other efforts in support of minority banks.

In 1994-1995, OTS interviewed the 40 minority banks that it regulated to obtain their views on the agency's support efforts. The interviews covered topics such as the banks' overall impressions of the agency's efforts, technical assistance, and application issues and asked for suggestions for improving OTS's efforts to support minority banks. However, OTS has not conducted a similar effort since that time. OTS officials told us that in 2003 and 2004 the agency conducted surveys of all OTS-regulated institutions and that a 2006 survey is in process. Because of restrictions imposed by the Office of Management and Budget on the amount of information that can be collected from institutions, OTS officials told us that they surveyed all of their banks at the same time. The surveys solicited feedback on OTS's examination process and provided opportunities for banks to make suggestions for improving OTS's operations. While OTS officials stated that the results from these surveys could be sorted by minority status, and has plans to do so and use the information for program enhancement, such analysis has not been conducted.

As required under Section 3 of FIRREA, OTS provides annual reports to Congress that, among other things, track technical assistance offers made to minority banks. But OTS has also not established quantifiable outcome-oriented measures to gauge the quality and effectiveness of technical assistance.

OCC and Federal Reserve officials told us that they had not surveyed the minority banks that they regulated to assess the effectiveness of their support efforts, and neither agency has established performance measures related to minority banking efforts. OCC officials explained that the agency did not survey minority banks because it did not treat these banks any differently from other banks. However, as described earlier, OCC has a written policy statement for minority banks, information on a Web page for such institutions, and has held events on Native American banking. OCC officials also told us that they recently convened a forum for African-American bankers and were in the process of developing an outreach program specifically for its minority banks.

By not periodically surveying and obtaining comprehensive feedback from a substantial number of minority banks or through developing outcome-oriented performance measures for various support efforts (such as technical assistance), the regulators are not well positioned to assess their support efforts or identify areas for improvement. Further, the regulators cannot take corrective action as necessary to provide better support efforts to minority banks.

## Survey of Minority Banks Identified Potential Limitations in Regulators' Support Efforts and Other Regulatory Issues

Minority bank survey respondents identified potential limitations in the regulators' efforts to support them and related regulatory issues, such as examiners' understanding of issues affecting minority banks, which would likely be of significance to agency managers and warrant follow-up analysis. Minority banks regulated by FDIC were generally more positive about the agency's efforts than other banks were about their regulators' efforts. Still, only about half of FDIC-regulated banks gave their regulator very good or good marks, whereas about a quarter of banks regulated by other agencies gave the same ratings. Although some regulators emphasized technical assistance as a key component of their efforts to support minority banks, relatively few institutions used such assistance. Further, in our interviews and open-ended survey responses, banks reported some specific concerns about regulatory issues related to their minority status. In particular, survey respondents were concerned that (1) examiners, as was also noted in our 1993 report, did not always understand their operating environment or the challenges that minority banks faced in their communities and might need more training on the topic, and (2) a provision of CRA designed to facilitate relationships between minority banks and other banks has not produced the desired results.

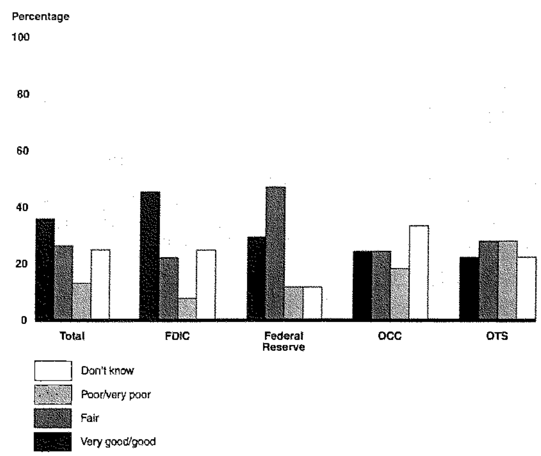
## About a Third of Survey Respondents Viewed Regulators' Minority Bank Support Efforts as Very Good or Good, and Technical Assistance Usage Appeared Low

When minority bankers were asked to rate regulators' overall efforts to support minority banks, responses varied. Some 36 percent of survey respondents described the efforts as very good or good, 26 percent described them as fair, and 13 percent described the efforts as poor or very poor (fig. 7). A relatively large percentage—25 percent—responded "don't know" to this question. Banks' responses varied by regulator, with 45 percent of banks regulated by FDIC giving very good or good responses, compared with about a quarter of banks regulated by other agencies.[32] However, more than half of FDIC-regulated banks and about three-quarters of the other minority banks responded that their regulator's efforts were fair, poor, or very poor or responded with a "don't know." In particular, banks regulated by OTS gave the highest percentage of poor or very poor marks, while banks regulated by the Federal Reserve most often provided fair marks.[33]

[32]We were requested to report on all the banking regulators' minority bank efforts and to obtain minority banks' views on these efforts. However, the banking regulators have different definitions for banks they consider to be minority and eligible to participate in their minority bank efforts (see app. II). In our population of minority banks we included any bank considered by at least one regulator to be eligible to participate in its efforts. In some cases, we surveyed minority banks that were not considered by their primary regulator to be minority institutions but were considered to have minority status or be eligible for participation in another regulator's efforts. Nine of the 80 FDIC minority banks responding were such cases, as were 4 of the 18 Federal Reserve minority banks, 1 of the 18 OTS banks, and 2 of the 33 OCC banks. We reviewed these banks' responses to key survey questions in total and by each regulator and found that they did not have a material negative or positive impact on the survey results, and would generally have changed results by 1 or 2 percentage points. For example, if these banks were removed from the survey results, the percentage of minority banks who responded that their regulator's overall efforts to support minority banks were very good or good would be 1 percentage point higher. In a few cases, the inclusion of banks not viewed by their regulators as minority institutions changed the survey results by regulator by 4 or 5 percentage points in a manner favorable to the regulator. However, the inclusion of such banks did not have a material effect on the overall results. For example, if banks not viewed by FDIC as minority banks were removed from the survey results, the percentage of institutions rating the agencies' overall support efforts as very good or good would increase from 45 percent to 49 percent.

[33]See appendix III for the survey responses in this report discussed as the number of minority bank responses.

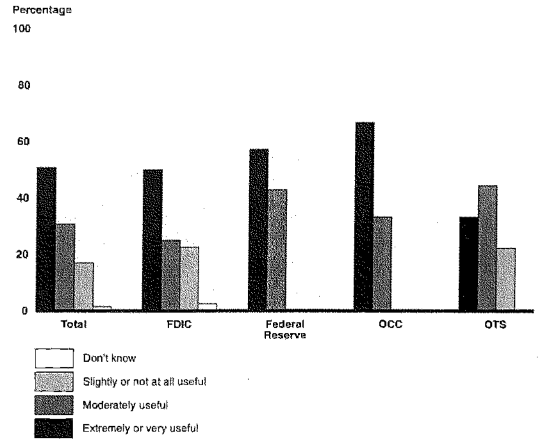
Figure 7: Minority Banks' Ratings of Support Efforts, by Regulator




Source: GAO.

Nearly half of minority banks reported that they attended FDIC roundtables and conferences designed for minority banks, and about half of the 65 respondents that attended these events found them to be extremely or very useful (fig. 8). Almost a third found them to be moderately useful, and 17 percent found them to be slightly or not at all useful. One participant commented, "The information provided was useful, as was the opportunity to meet the regulators." Many banks also commented that the events provided a good opportunity to network and share ideas with other minority banks.

**Figure 8: Usefulness of FDIC's Roundtables and Conferences, by Regulator**



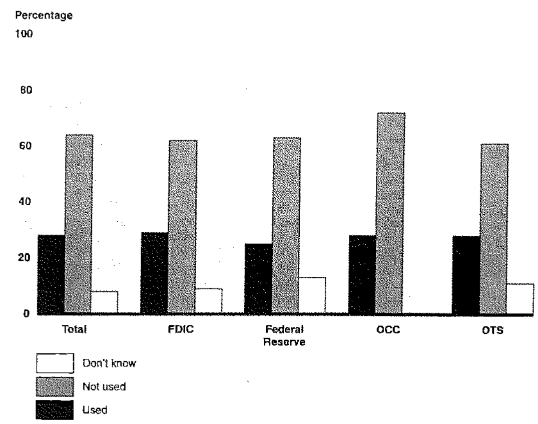

Source: GAO.

We noted that minority banks frequently reported participating in training and education events and that they found these events extremely or very useful, even though most of these programs were not designed specifically for minority banks. About 58 percent reported participating in their regulator's training and education activities—a higher percentage than had participated in FDIC roundtables and conferences. Of this group, 76 percent found training and education to be extremely or very useful, 15 found it to be moderately useful, 6 percent found it to be slightly useful, and 3 percent did not know.

While FDIC and OTS emphasized technical services as key components of their efforts to support minority banks, less than 30 percent of the institutions they regulate reported using such assistance within the last 3 years in our survey (fig. 9). Minority banks regulated by OCC and the Federal Reserve reported similarly low usage of the agencies' technical assistance services. However, of the few banks that used technical assistance—41—the majority rated the assistance provided as extremely or very useful.[34] Further, although small minority banks and African-American banks of all sizes have consistently faced financial challenges and may benefit from certain types of assistance, these banks also reported low rates of usage of the agencies' technical assistance. In addition, both regulators and minority banks explained that minority banks often have difficulty attracting and retaining qualified staff, and given this fact, technical assistance could be particularly important in providing these banks with guidance tailored to their staff's specific needs. While our survey did not address the reasons that relatively few minority banks appear to use the agencies' technical assistance and banking regulators cannot compel banks under their supervision to make use of offered technical assistance, the potential exists that many such institutions may be missing opportunities to learn how to correct problems that limit their operational and financial performance.

[34]The survey did find that minority banks regulated by FDIC and OTS were more aware of the agencies' technical assistance outreach efforts than institutions regulated by OCC and the Federal Reserve. This finding is consistent with the fact that FDIC and OTS have formalized technical assistance outreach efforts, while the other regulators do not.

Figure 9: Minority Banks' Use of Technical Assistance, by Regulator




Source: GAO.

## Survey Respondents Expressed Concerns about the Examination Process and a Provision of CRA Designed to Assist Minority Banks

Over 80 percent of the minority banks we surveyed responded that their regulators did a very good or good job of administering examinations, and almost 90 percent felt that they had very good or good relationships with their regulator. However, as in our 1993 report, some minority bank officials said in both survey responses and interviews that examiners did not always understand the challenges the banks faced in providing services in their particular communities. Twenty-one percent of survey responses mentioned this issue when asked for suggestions about how regulators could improve their efforts to support minority banks, and several minority banks we spoke with in interviews elaborated on this topic.

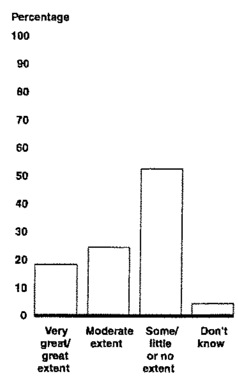
The bank officials said that examiners tended to treat minority banks like any other bank when they conducted examinations and thought such comparisons were not appropriate. For example, some bank officials whose institutions serve immigrant communities said that their customers tended to do business in cash and carried a significant amount of cash because banking services were not widely available or trusted in the customers' home countries. Bank officials said that examiners sometimes commented negatively on the practice of customers doing business in cash or placed the bank under increased scrutiny with respect to the Bank Secrecy Act's requirements for cash transactions.[35] While the bank officials said that they did not expect preferential treatment in the examination process, several suggested that examiners undergo additional training so that they could better understand minority banks and the communities that these institutions served. FDIC has conducted such training for its examiners. In 2004, FDIC invited the president of a minority bank to speak to about 500 FDIC examiners on the uniqueness of minority banks and the examination process. FDIC officials later reported that the examiners found the discussion helpful. According to a Federal Reserve official, the organization is developing guidance to better educate examination staff about the various types of minority institutions and minority communities. Also, according to an OCC official, OCC has an initiative under consideration to provide training for its examiners on minority bank issues.

Many survey respondents also said that a provision in the Community Reinvestment Act (CRA) that was designed to assist their institutions was not effectively achieving this goal. CRA requires bank regulators to encourage institutions to help meet credit needs in all areas of the communities they served. The act includes a provision allowing regulators conducting a CRA examination to give consideration to banks that assist minority banks through capital investment, loan participations, and other ventures that help meet the credit needs of local communities. Despite this provision, only about 18 percent of survey respondents said that CRA had—to a very great or great extent—encouraged other institutions to invest in or form partnerships with their institutions, while more than half said that CRA encouraged such activities to some, little, or no extent (fig. 10). Some minority bank officials said that current interagency guidance on the provision granting consideration for investments in minority banks should be clarified to assure banks that they will receive CRA

[35]The body of law commonly referred to as the Bank Secrecy Act (BSA) is codified at 31 U.S.C. §§ 5311-5322 and 12 U.S.C. §§ 1829b and 1951–1959. The purpose of BSA is to prevent financial institutions from being used as intermediaries for the transfer or deposit of money derived from criminal activity and to provide a paper trail for law enforcement agencies in their investigations of possible money laundering. The federal banking regulators review institutions for compliance with the BSA as part of their safety and soundness examinations or in targeted examinations focused on BSA compliance.

consideration for such investments. Some minority banks believe that CRA does not provide incentives for nonminority banks to make investments in minority banks that operate in other parts of the country. A minority bank official said that the CRA provision does not clearly state that a bank making an investment in a minority bank that is outside of its CRA assessment area will receive consideration for such investments in its CRA compliance examinations. However, officials from each of the four regulators said that they had interpreted the provision in CRA as allowing consideration for such out-of-area investments in minority banks. OCC recently published guidance clarifying this issue, and FDIC officials said that the agencies would clarify the guidance provided to all CRA examiners across agencies on such investments.

**Figure 10: Minority Banks' Evaluation of the Extent to Which CRA Has Encouraged Partnerships with Other Institutions**




Source. GAO.

This report does not contain all results from the survey. The survey and a more complete tabulation of the results can be viewed at GAO-07-7SP.

## Conclusions

Federal banking regulators have adopted differing approaches to support minority banks but generally have not assessed their efforts using regular and comprehensive surveys of minority banks or outcome-oriented performance measures. FDIC, which along with OTS is required by FIRREA to help preserve and promote minority banks, has established the most comprehensive support efforts and has taken the lead on interagency initiatives. In this regard, FDIC appears to be serving a coordination and facilitation role for the banking agencies' efforts. OTS has also taken several steps to support minority banks, while OCC and the Federal Reserve, which are not subject to Section 308 of FIRREA, have, on their own initiative, taken some steps to support such institutions. Further, officials from OCC and the Federal Reserve, which collectively supervise about one-third of minority banks, stated that they recognize the importance of minority banks and are planning additional efforts to support them. While these efforts may help ensure that more minority banks receive support, it is important that when managing both existing and new programs, regulators assess their effectiveness. While FDIC has recently sought to evaluate its efforts through conducting surveys, these surveys have not addressed all key activities (including the provision of technical assistance), and the agency has not established outcome-oriented performance measures. None of the other agencies regularly or comprehensively surveys minority banks regarding its support efforts or has developed outcome-oriented performance measures. Consequently, the regulators are not well positioned to identify issues of concern to minority banks or to take corrective actions to improve their support efforts.

Our work identified potential limitations in the regulators' support efforts and related activities that would likely be of significance to agency managers and potentially warrant follow-up analysis and the initiation of corrective actions as necessary. For example, only about half of minority banks regulated by FDIC and only about a quarter regulated by the other agencies view their regulator's support efforts as very good or good. We also found that some issues identified in our 1993 report may still be potential limitations to the regulators' efforts. First, although regulators emphasize the provision of technical assistance services to minority banks, less than 30 percent of such banks have recently used such services. Small banks and African-American banks, which have struggled financially over the years and potentially stand to benefit most from additional technical assistance, are no more likely than other minority banks to use such assistance. While there may be a variety of reasons that minority banks do not take advantage of the regulators' technical assistance services and regulators cannot compel banks to use this assistance, without soliciting further feedback from these banks, the regulators cannot identify these reasons, determine whether more banks would benefit from such assistance, or obtain suggestions for improvement. Second, both our 1993 report and our current analysis found that some minority banks believe that regulators have not ensured that examiners fully understand the challenges that such institutions often face in, for example, providing financial services in areas with high concentrations of poverty or to immigrant communities. Again, without further analysis and soliciting feedback from banks, regulators cannot identify possible areas where they can provide additional assistance or take corrective action. By establishing outcome-oriented performance measures to determine the extent to which they are achieving program goals, regulators could then measure the progress of their efforts and any results. Using existing interagency forums for coordination to assess minority bank support efforts and related regulatory activities could help ensure that all minority banks have access to the same opportunities while minimizing burdens on the regulators themselves.

## Recommendation for Executive Action

We recommend that the Chairman of the FDIC, the Director of OTS, the Comptroller of the Currency, and the Chairman of the Federal Reserve regularly review the effectiveness of their minority bank support efforts and related regulatory activities and, as appropriate, assess the need to make changes necessary to better serve such institutions. In conducting such reviews, the regulators should consider

- conducting periodic surveys of such institutions to determine how they view regulators' minority support efforts and related activities, and/or
- developing outcome-oriented performance measures to assess the progress of their efforts in relation to program goals.

As part of these regular program assessments, the regulators may wish to focus on such areas as minority banks' overall views on support efforts, the usage and effectiveness of technical assistance services (particularly technical assistance provided to small minority banks and African-American banks), and the level of training provided to agency examiners regarding minority banks and their operating environments. Regulators may also wish to utilize existing interagency coordination processes in implementing this recommendation to help ensure consistent efforts and minimize burdens on agency staff.

## Agency Comments and Our Evaluation

We provided a draft of this report to FDIC, OTS, OCC, and the Federal Reserve for comment, and they provided written comments that are reprinted in appendixes IV–VII. In their responses, the agencies further elaborated on their efforts to support minority banks and described planned initiatives. Further, FDIC, OTS, and OCC agreed to implement our recommendation, while the Federal Reserve commented that it would consider implementing the recommendation. The agencies also provided technical comments, which we have incorporated as appropriate. We also requested comments from the Department of the Treasury on the section of the draft report relevant to their activities under Section 308 of FIRREA. Treasury provided us with technical comments, which we have incorporated as appropriate.

We will provide copies to Chairman of the FDIC, the Director of OTS, the Comptroller of the Currency, the Chairman of the Federal Reserve, and the Secretary of the Department of the Treasury, and other interested congressional committees. We will also make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-7215 or scottg@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report at listed in appendix VIII.

George A. Scott

Acting Director, Financial Markets
and Community Investment

*List of Requesters*

The Honorable Barney Frank
Ranking Minority Member
Committee on Financial Services
House of Representatives

The Honorable Gary Ackerman
House of Representatives

The Honorable Joe Baca
House of Representatives

The Honorable Michael E. Capuano
House of Representatives

The Honorable Julia Carson
House of Representatives

The Honorable Wm. Lacy Clay
House of Representatives

The Honorable Emanuel Cleaver
House of Representatives

The Honorable Joseph Crowley
House of Representatives

The Honorable Artur Davis
House of Representatives

The Honorable Harold E. Ford, Jr.
House of Representatives

The Honorable Al Green
House of Representatives

The Honorable Luis V. Gutierrez
House of Representatives

The Honorable Ruben Hinojosa
House of Representatives

The Honorable Darlene Hooley
House of Representatives

The Honorable Steve Israel
House of Representatives

The Honorable Paul E. Kanjorski
House of Representatives

The Honorable Barbara Lee
House of Representatives

The Honorable Stephen F. Lynch
House of Representatives

The Honorable Carolyn B. Maloney
House of Representatives

The Honorable Carolyn McCarthy
House of Representatives

The Honorable Gregory W. Meeks
House of Representatives

The Honorable Brad Miller
House of Representatives

The Honorable Dennis Moore
House of Representatives

The Honorable Gwen Moore
House of Representatives

The Honorable Bernard Sanders
House of Representatives

The Honorable Debbie Wasserman Schultz
House of Representatives

The Honorable David Scott
House of Representatives

The Honorable Melvin L. Watt
House of Representatives

The Honorable Maxine Waters
House of Representatives

United States General Accounting Office

GAO

Report to the Chairman, Committee on Government Operations, House of Representatives

November 1993

# MINORITY-OWNED FINANCIAL INSTITUTIONS

## Status of Federal Efforts to Preserve Minority Ownership

RESTRICTED--Not to be released outside the General Accounting Office unless specifically approved by the Office of Congressional Relations.
RELEASED

GAO

United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-254636

November 3, 1993

The Honorable John Conyers, Jr.
Chairman, Committee on Government
Operations
House of Representatives

Dear Mr. Chairman:

At your request, we reviewed the implementation of section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA)[1] and section 403 of the Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991.[2] These provisions were designed to preserve minority ownership of financial institutions and provide assistance for minority-owned institutions and minority investors with acquiring failed institutions. Accordingly, this report provides information on actions taken by the Department of the Treasury, Federal Deposit Insurance Corporation (FDIC), Office of Thrift Supervision (OTS), and Resolution Trust Corporation (RTC) to satisfy the requirements of sections 308 and 403 to preserve minority ownership of financial institutions. This report also presents the views of the minority business community on the effectiveness of the agencies' programs.

## Background

Minority-owned financial institutions[3] can serve as valuable resources in furthering the economic viability of minority communities. Accordingly, under section 308 of FIRREA, Congress required the Secretary of the Treasury to consult with the Chairperson of the Board of Directors of FDIC and the Director of OTS on methods to achieve the following five goals:

- preserving the present number of minority depository institutions;
- preserving their minority character in cases involving mergers or acquisition of minority depository institutions;
- providing technical assistance to prevent insolvency of institutions not now insolvent;
- promoting and encouraging creation of new minority depository institutions; and

[1] Public Law 101-73, 103 Statute 183, 353 (1989).

[2] Public Law 102-233, 105 Statute 1761, 1776 (1991).

[3] Minority-owned financial institutions are institutions that are 51-percent owned by minority individuals or organizations, or in the case of mutual depository institutions, the majority of the Board of Directors, account holders, and the community that it serves are predominately minority. The term minority means any African-American, Hispanic-American, Asian-American, or Native-American.

- providing for training, technical assistance, and educational programs.

FDIC is one of three federal financial institutions regulatory agencies that shares supervisory responsibility for commercial banking organizations.[4] As of March 31, 1993, there were 52 minority-owned banks under FDIC's supervision (see app. I). OTS is the principal federal regulator of thrifts, including the 41 minority-owned thrifts that were in existence as of March 31, 1993 (see app. II).

Under FIRREA, RTC was provided authority to manage and resolve insolvent thrifts.[5] Section 403 of the RTC Refinancing Act required RTC, when resolving failed institutions, to:

- assist minority investors and minority institutions with acquiring a nonminority institution if it has not received acceptable bids for acquiring the failed institution without offering assistance and
- make available to minority institutions and minority investors that acquire nonminority institutions the assets of other institutions in RTC's conservatorship or receivership program.

## Results in Brief

Treasury, FDIC, OTS, and RTC have taken steps to respond to the requirements of section 308 of FIRREA and section 403 of the RTC Refinancing, Restructuring, and Improvement Act of 1991. For example, Treasury responded to the requirements in section 308 by convening meetings with the federal financial institutions regulatory agencies and RTC to discuss efforts relating to the preservation of minority-owned financial institutions. FDIC and OTS also have adopted policies that provide for the preservation of minority ownership of financial institutions through the regular supervisory process. Moreover, on July 14, 1993, FDIC issued a memorandum, which reiterated that, as required by statute, when resolving failed minority-owned banks, bids from qualified minority-owned financial institutions nationwide are to be generally sought before bids from nonminority-owned financial institutions. In addition, both FDIC and OTS can refer to instances in which they have provided technical assistance to minority-owned financial institutions. Finally, RTC issued guidelines that extend preference to minority bidders of the same ethnicity as the failed minority-owned thrift and offers interim capital assistance to successful

[4] The Federal Reserve System and the Office of the Comptroller of the Currency (OCC) are the other two regulatory agencies. We did not review their efforts to preserve minority-owned institutions because they were not assigned responsibilities under section 308.

[5] By law, OTS is not responsible for the resolution of failed thrifts under its supervision.

minority bidders. RTC also assists minorities who are interested in acquiring failed nonminority-owned financial institutions when no acceptable bids are received.

Each of the agencies stated that its efforts have helped to preserve the minority ownership of financial institutions and referred to data indicating that overall minority-owned financial institutions have held their own and in some cases have increased in size and number. FDIC data showed that the number of minority-owned banks increased from 42 in December 1989 to 52 as of March 31, 1993, while nonminority-owned banks decreased by 658 from 7,458 to 6,800 during this period. Moreover, OTS data showed that the decline in minority-owned thrifts was not as dramatic as the decline in the rest of the thrift industry. For example, between December 1989 and March 31, 1993, minority-owned thrifts were reduced by 27 percent from 56 to 41 while nonminority-owned thrifts decreased 31 percent from 2,541 to 1,761. Finally, since August 1989, RTC resolved 26 of the 29 failed minority-owned thrifts and maintained the minority ownership in 12 of those resolutions.

Nevertheless, during our interviews with the minority banking community they suggested that the agencies could improve their performance. Trade associations representing minority institutions commented that the regulatory agencies have not been proactive in satisfying the statutory requirements. Minority-owned financial institutions gave FDIC and OTS mixed reviews. They suggested that the agencies can improve the sensitivity of their examiners to the unique circumstances of minority-owned financial institutions, provide more technical assistance, and help minority-owned financial institutions gain access to needed capital.

## Objective, Scope, and Methodology

Our objective was to review agencies' efforts to implement section 308 of FIRREA and section 403 of the RTC Refinancing, Restructuring, and Improvement Act of 1991. In this report we specifically (1) discuss the approaches employed by Treasury, FDIC, OTS, and RTC to satisfy the statutory requirements and (2) provide information on the results of the agencies' efforts. This report also presents the views of the minority banking community on the effectiveness of the agencies' programs.

To achieve our objective, we interviewed Treasury, FDIC, OTS, and RTC headquarters officials responsible for implementing sections 308 and 403. We also interviewed officials in each of FDIC's eight regional offices as well as OTS' five regions regarding program implementation. In addition, we reviewed FDIC's, OTS', and RTC's policies and procedures on preserving the minority ownership of minority institutions. Moreover, we collected and analyzed statistics from the agencies on the number and size of minority-owned financial institutions. We also reviewed the agencies' reports on the status of minority-owned financial institutions.

To obtain views regarding the effectiveness of agency programs, we interviewed agency officials and met with officials from the National Bankers Association (NBA), American League of Financial Institutions (ALFI), and Minority Asset Recovery Contractors Association (MARCA). Finally, in June 1993, we developed a survey to obtain information on FDIC's and OTS' efforts to assist minority-owned financial institutions. We randomly selected 49 of 95 minority-owned financial institutions and conducted telephone interviews with 48 of them. To increase the accuracy of our information about the overall results from the minority-owned financial institutions, we stratified our sample by type of financial institution, minority group, and location. However, our sample represents the views of the 48 minority bank and thrift executives that we interviewed and does not reflect the views of the other 47 minority-owned financial institutions. We did not independently verify the information we received.

We did our review from November 1992 through July 1993 in accordance with generally accepted government auditing standards.

Treasury, FDIC, OTS, and RTC provided written comments on a draft of this report. These comments are presented in summary in the agency comments section and are reprinted in apps. III through VI.

## Agencies' Efforts to Implement Sections 308 and 403

Treasury, FDIC, OTS, and RTC have taken steps to satisfy the statutory requirements. In essence, Treasury's approach entails facilitating communication among the federal financial regulatory agencies and RTC regarding minority-owned financial institutions issues. FDIC's approach focuses on preserving minority-owned banks under its normal supervisory and resolution policies and procedures. Similarly, OTS' approach focuses on helping the existing institutions remain viable and profitable through the supervisory review process. RTC extends preference to minority bidders of the same ethnicity as the former owners of the failed minority-owned thrifts and offers capital assistance to the winning minority bidder.

The following sections describe the agencies' efforts to implement sections 308 and 403.

## Treasury's Efforts

Section 308 requires the Secretary of the Treasury to consult with the Chairperson of the Board of Directors of FDIC and the Director of OTS on methods for preserving minority-owned financial institutions. Treasury officials interpret their role under this provision as one of coordinating and disseminating information among the federal financial regulatory agencies on methods for preserving minority-owned financial institutions. As such, Treasury officials said that they do not have a specific policy statement for satisfying the requirements of section 308.

Treasury has convened four interagency meetings,[6] on an as needed basis, with representatives from FDIC, OTS, RTC, OCC, the Federal Reserve, and the Thrift Depositor Protection Oversight Board. The purpose of the interagency meetings was to exchange ideas, discuss policies regarding minority-owned financial institutions, and coordinate efforts. For example, at the April 22, 1992, interagency meeting, the agencies discussed alternative methods for providing technical assistance, such as having NBA assist minority-owned financial institutions or having other well-run institutions assist minority-owned financial institutions with their operations.

In addition to the interagency meetings, Treasury's staff of five in the Office of Thrift Institutions Oversight and Policy, each of whom has other responsibilities, prepares quarterly reports that track the status of minority-owned financial institutions. For example, Treasury reviews areas such as capital, assets, earnings, and nonperforming loans to determine any changes since the last quarter. These reports are provided to keep the Assistant Secretary for Domestic Finance at Treasury abreast of the condition of minority-owned financial institutions.

## FDIC's Efforts

FDIC's approach to preserving minority-owned banks is to maintain the condition of existing minority-owned banks through the regular supervisory process. FDIC officials consider this approach to be consistent with FDIC's responsibility to ensure the safety and soundness of all banks under FDIC's primary supervision. According to FDIC, the examination

[6] The four interagency meetings were held on March 15, 1990; April 22, 1992; December 4, 1992; and May 8, 1993.

process was designed to identify problems at any financial institution and aid the management team in correcting them.

With respect to resolving failed minority-owned banks, FDIC generally solicits bids from qualified minority-owned financial institutions nationwide during its marketing efforts. However, the actual selection of the winning bidder is determined by the least cost approach.[7] Moreover, in some cases state law restrictions on interstate acquisitions of failed or failing minority-owned financial institutions may be overridden for the benefit of minority acquirers but not for the benefit of nonminority acquirers.

FDIC also took additional actions to satisfy the requirements of section 308. In April 1990, FDIC issued its policy statement on preserving minority ownership of financial institutions. Among other items, the policy stated that training, education, and technical assistance are available from FDIC in areas of call report[8] preparation, consumer affairs and civil rights, and accounting. Moreover, on July 14, 1993, FDIC supplemented its policy statement with the issuance of a memorandum that required the establishment of a national list of potential minority bidders. The list is to be used to identify and subsequently contact minority investors or minority-owned financial institutions that are interested in acquiring failed institutions. As of August 12, 1993, the list contained about 60 potentially qualified minority bidders.

Initially, the former Director of FDIC's Division of Supervision (DOS) worked jointly with its Office of Equal Opportunity on minority-owned bank issues, including section 308. In September 1992, the current Director of DOS tasked a review examiner in headquarters with implementing section 308. In November 1992, each regional office assigned a review examiner to prepare quarterly reports and address minority-owned bank issues. The quarterly reports included information on (1) minority-owned banks likely to fail; (2) actions taken on merger, acquisition, deposit insurance, and other applications for minority-owned banks; (3) training, education, and technical assistance provided to minority-owned banks; and (4) banks whose performance was marginal or unsatisfactory, regardless of ownership, that serve minority communities.

[7]The Federal Deposit Insurance Corporation Improvement Act of 1991 prohibits FDIC and RTC from engaging in an assisted resolution of any failed depository institution unless it has been determined that the total amount of expenditures and obligations they will incur is the least costly alternative. (Federal Deposit Insurance Corporation Act of 1991, P. L. 102-242, 105 Stat. 2236, 2273 (1991).)

[8]Call reports contain quarterly financial data on institutions, as requested by the federal financial institution regulatory agencies.

FDIC also provided some assistance to several minority-owned banks. For example, in December 1991, FDIC provided financial assistance to one minority-owned bank by infusing approximately $1 million into the institution. In another instance, FDIC approved a transaction that allowed a troubled minority-owned bank to acquire a failed credit union in September 1992. FDIC officials stated they would not ordinarily approve a transaction that allows a troubled institution to acquire a failed institution because of the risk involved. According to FDIC officials, FDIC did so in this case because the minority-owned bank's overall financial condition had improved. FDIC has also supported several minority-owned banks by using informal enforcement actions to communicate bank problems identified during the examination. For example, on four occasions FDIC issued memorandums of understanding rather than cease and desist orders, which are more formal and legally enforceable in court if the agreed upon corrections are not completed. Nonetheless, according to FDIC officials, all enforcement actions informal or formal are designed to be remedial in nature.

From August 1989 to July 2, 1993, 11 minority-owned banks had failed. FDIC resolved each of them by preserving the minority ownership of two, selling six to nonminorities, and closing and paying off the depositors of three (see table 1). Moreover, minority-owned banks acquired five failed nonminority-owned banks (see table 2).

**Table 1: Overview of FDIC's Resolutions of Failed Minority-Owned Institutions as of July 2, 1993**

| Date closed | Name/location | Minority acquirer: Yes | Minority acquirer: No | Bank closed and depositors paid off |
|---|---|---|---|---|
| 11/17/89 | Security National Bank of Shreveport, Shreveport, LA | | | X |
| 12/07/89 | Atlantic National Bank, Norfolk, VA | X | | |
| 03/08/90 | First Bank National Association, Cleveland, OH | | | X |
| 07/07/90 | Capital National Bank, New York, NY | | X | |
| 10/19/90 | Metropolitan National Bank, McAllen, TX | | X | |
| 11/09/90 | Freedom National Bank of New York, New York, NY | | | X |
| 01/22/91 | American Bank, National Association, Rio Rancho, NM | | X | |
| 01/24/92 | Banco Nacional, National Association, San Juan, PR | | X | |
| 06/04/92 | Mayfair Bank, Chicago, IL | X | | |
| 06/11/93 | American Bank and Trust Company, San Jose, CA | | X | |
| 07/02/93 | Emerald City Bank, Seattle, WA | | X | |

Source: FDIC.

**Table 2: Nonminority-Owned Institutions Acquired by Minorities**

| Date closed | Name/location: Nonminority institution | Name/location: Minority acquirer | Ethnic identity of minority acquirer |
|---|---|---|---|
| 01/26/90 | Credit Bank, Cutler Ridge, FL | Capital Bank, Miami, FL | Hispanic-American |
| 02/23/90 | The Red River Bank, Red River, NM | Centinel Bank, Taos, NM | Hispanic-American |
| 03/29/90 | First National Bank of Garland, Garland, TX | State Bank of Texas, Dallas, TX | Asian-American |
| 03/26/92 | Theodore Roosevelt National Bank, Washington, D.C. | Industrial Bank of Washington, Washington, D.C. | African-American |
| 06/25/92 | Castle Hills National Bank, San Antonio, TX | International Bank of Commerce, Laredo, TX | Hispanic-American |

Source: FDIC.

Overall, the number of minority-owned banks supervised by FDIC increased by 10, from 42 at the end of 1989 to 52 in March 1993 (see table 3). To put this increase in perspective, the number of nonminority-owned banks decreased by 658 from 7,458 to 6,800 during the same period. Furthermore, the total assets held by minority-owned banks have increased steadily. At the end of 1989 minority-owned bank assets totaled approximately $5 billion (see table 3). By March 1993 the assets had increased to about $8 billion, which is a 60-percent increase.

**Table 3: Growth Rate of Minority- and Nonminority-Owned Institutions Supervised by FDIC**

Dollars in billions

| | Minority-owned institutions | | Nonminority-owned institutions | |
|---|---|---|---|---|
| Quarter | Number of institutions | Asset size | Number of institutions | Asset size |
| 4th 1989 | 42 | $5 | 7,458 | $776 |
| 4th 1990 | 44 | $5 | 7,313 | $840 |
| 4th 1991 | 49 | $7 | 7,108 | $846 |
| 4th 1992 | 51 | $8 | 6,863 | $854 |
| 1st 1993 | 52 | $8 | 6,800 | $848 |

Source: FDIC and Federal Reserve System.

This growth in asset size and number of minority-owned banks is not to suggest that they have obtained significant representation in the banking industry. Minority-owned banks still represent less than 1 percent of all banks supervised by FDIC. However, the data suggested that minority-owned banks, in general, are holding their own in an industry that during the past 3 years was significantly affected by the weak economy.

## OTS' Efforts

In October 1990, OTS issued its policy statement on minority-owned thrifts. Essentially, the policy specifies that in supervisory cases involving minority-owned thrifts, OTS will seek to maintain the minority characteristics provided they are consistent with OTS' responsibility to ensure the safety and soundness of all thrifts. OTS also assigned two headquarters staff persons, who also have other responsibilities, to implement the requirements of section 308. Moreover, each regional office has designated an individual to serve as the minority thrifts' contact to address their concerns.

Another component of OTS' program is the annual certification of minority-owned savings associations. Each year, OTS recertifies the minority characteristics of all privately owned savings associations. Minority savings associations are asked to provide information on, for example, whether they are minority owned or controlled. In addition, the associations are asked to describe how they are servicing the minority community in which they were chartered to do business. According to OTS officials, this certification effort provides them with useful information on a thrift's minority ownership and other characteristics.

OTS also consulted with ALFI and participated in various seminars designed to reach out to minority communities. In addition, as required by law, OTS annually reports to Congress its efforts to implement section 308.[9]

Furthermore, OTS offers technical assistance to minorities on an institution-specific basis. During 1992, OTS provided technical assistance to 16 minority-owned savings associations. One example included the approval of a $1 million stock sale by an undercapitalized minority-owned thrift to a nonminority-owned thrift holding company. This purchase, which improved the minority thrift's ability to meet its capital requirement,

[9]FIRREA did not require Treasury and FDIC to provide Congress with information on their efforts.

was done through a qualified stock issuance.[10] OTS also intervened on behalf of a minority-owned thrift to address concerns raised by a state banking commission about the thrift's viability and helped it find a temporary managing officer and consultant to correct problems. In another instance, OTS granted an exemption that allowed a senior officer from a nonminority-owned thrift to serve on a minority thrift's board of directors and helped the thrift identify an officer and waived the $600 application fee for the exemption.

Nonetheless, the number of minority-owned thrifts declined as the thrift industry, in general, continued to downsize. However, the minority-owned thrifts have not experienced quite as strong a decline as the thrift industry overall. In December 1989, OTS supervised 56 minority-owned thrifts. As of March 1993, the number was reduced to 41, which is a decline of 27 percent. During this same period, the number of nonminority-owned thrifts declined by 31 percent from about 2,541 to 1,761 (see table 4). Equally important, the decrease in the amount of assets held by minority-owned thrifts was not as dramatic as the decrease of nonminority-owned thrifts. For example, while the assets held by minority-owned thrifts declined from $7 billion at the end of 1991 to $6 billion at the end of 1992, by the end of the first quarter of 1993 the assets had increased to $7 billion. In contrast, the assets of nonminority-owned thrifts declined by $141 billion from $870 billion to $729 billion during this same period (see table 4).

**Table 4: Growth Rate of Minority- and Nonminority-Owned Thrifts**

Dollars in billions

| | Minority-owned thrifts | | Nonminority-owned thrifts | |
|---|---|---|---|---|
| Quarter | Number of thrifts | Asset size | Number of thrifts | Asset size |
| 4th 1989 | 56 | N/A | 2,541 | N/A |
| 4th 1990 | 49 | N/A | 2,293 | N/A |
| 4th 1991 | 45 | $7 | 2,051 | $870 |
| 4th 1992 | 42 | $6 | 1,813 | $788 |
| 1st 1993 | 41 | $7 | 1,761 | $729 |

Note: OTS could not provide financial data for 1989 and 1990.

Source: OTS.

[10]Under FIRREA, a thrift that fails to meet minimum regulatory capital requirements may sell up to 15 percent of its stock to a thrift holding company without the buyer considered to be in control of the institution.

## RTC's Efforts

RTC's approach to preserving the minority ownership of financial institutions is guided by its Minority Preference Resolution Program. RTC officials are of the opinion that this program will enable them to preserve the minority ownership of some failed minority-owned thrifts, thus increasing the total number of minority-owned financial institutions. Under this program, RTC extends preferences to bidders of the same ethnicity as the previous owners of the failed minority-owned thrift. Moreover, as of September 14, 1993, RTC had registered 297 minority investors or minority-owned financial institutions for its list of potential bidders.

RTC also offers interim capital assistance, in the form of loans, to successful minority bidders to facilitate the acquisition of institutions. The amount of the interim capital assistance that successful minority bidders may receive is two thirds of the minimum capital required by the chartering and regulatory agencies and is subject to repayment within 2 years. RTC had provided over $7 million in interim capital assistance to six minority investors or institutions as of May 18, 1993.

Since its inception in August 1989 through May 18, 1993, RTC had resolved 26 of the 29 failed minority-owned thrifts. Minority ownership was preserved in 12 of the 26 resolutions (see table 5). According to RTC, 9 of the remaining 14 failed minority-owned thrifts were acquired by nonminority-owned institutions because no acceptable proposals were received from minorities. However, the thrifts remain in their previous locations and continue to serve the community. Finally, RTC closed five minority-owned thrifts because no qualified minority or nonminority group expressed an interest in acquiring them.

**Table 5: Overview of RTC's Resolution of Failed Minority-Owned Thrifts as of May 18, 1993**

| Date resolved | Name/location | Minority acquirer Yes | Minority acquirer No | Thrift closed and depositors paid off |
|---|---|---|---|---|
| 05/11/90 | State Mutual Federal Savings and Loan Association, Jackson, MS | X | | |
| 05/18/90 | Community Federal Savings and Loan Association, Newport News, VA | X | | |
| 05/18/90 | Peoples Savings & Loan Association, F.A., Hampton, VA | X | | |
| 05/18/90 | City Federal Saving and Loan Association, Oakland, CA | X | | |
| 05/31/90 | Sun Country Savings Bank of New Mexico, FSB, Albuquerque, NM | | | X |
| 06/08/90 | Gateway Federal Savings Bank, Oakland, CA | X | | |
| 06/29/90 | Valley Federal Savings Association, McAllen, TX | X | | |
| 08/17/90 | Miami Savings Bank, Miami, FL | | X | |
| 08/17/90 | First Federal Savings and Loan Association, Baton Rouge, LA | X | | |
| 08/31/90 | Caguas-Central Federal Savings Bank of Puerto Rico, Caguas, PR | | X | |
| 09/07/90 | Community Federal Savings and Loan Association, Tampa, FL | | | X |
| 09/14/90 | Equity Federal Savings Bank, Denver, CO | | | X |
| 09/28/90 | United Federal Savings, F.A., New Orleans, LA | X | | |
| 11/09/90 | Bank USA, SA, Silvis, IL | | X | |
| 01/11/91 | General Federal Savings Bank, Coral Gables, FL | | X | |

(continued)

| Date resolved | Name/location | Minority acquirer Yes | Minority acquirer No | Thrift closed and depositors paid off |
|---|---|---|---|---|
| 01/11/91 | Padre Federal Savings and Loan Association, Corpus Christi, TX | | | X |
| 01/18/91 | Founders Federal Savings and Loan Association, Los Angeles, CA | X | | |
| 01/18/91 | Silver Savings Association, F.A., Silver City, NM | | X | |
| 05/17/91 | Time Federal Savings and Loan Association, San Francisco, CA | | X | |
| 06/07/91 | Liberty Federal Savings Bank, Montebello, CA | | X | |
| 06/28/91 | Amigo Federal Savings and Loan Association, Brownsville, TX | X | | |
| 08/26/91 | Standard Federal Savings Association, Houston, TX | | | X |
| 10/11/91 | Tuskegee Savings and Loan Association, F.A., Tuskegee, AL | X | | |
| 02/07/92 | Connecticut Federal Savings and Loan Association, Hartford, CT | | X | |
| 03/19/92 | New Age Federal Savings Association, St. Louis, MO | | X | |
| 03/05/93 | Enterprise Savings and Loan Association, Compton, CA | X | | |

Source: RTC.

In April 1992, RTC amended its minority preference resolution guidelines to comply with section 403 of the RTC Refinancing, Restructuring, and Improvement Act of 1991, which provides for assisting minority investors or institutions with acquiring failed nonminority-owned thrifts. Specifically, the guidelines state that when no acceptable bids are received for failed nonminority-owned institutions RTC may accept bids from minority investors or institutions and may provide interim capital assistance. Furthermore, RTC guidelines provide for the sale of assets at market price to augment the earnings of the new minority-owned institution that acquired the nonminority-owned institution. Since RTC's 1989 inception, one minority-owned institution has acquired a failed nonminority institution from RTC. United Bank of Philadelphia acquired Chase Federal Savings and Loan Association, which is also located in Philadelphia, on July 30, 1993.

## Mixed Views on Effectiveness of Agencies' Programs

Despite the agencies' efforts to preserve the minority ownership of financial institutions, the minority trade associations and the executives of minority-owned financial institutions have mixed perceptions of the effectiveness of these agencies' programs.

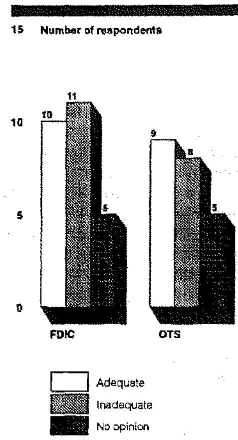
The trade associations are under the impression that the agencies have not taken sufficient actions to preserve minority-owned financial institutions. For example, ALFI, which represents most minority-owned savings and loan associations in the country, stated that OTS' policy requiring $2 million in capital for new owners to acquire a failed thrift is restrictive and discourages potential minority investors. Moreover, ALFI contends that OTS does not have a formal technical assistance program to assist minority-owned thrifts. ALFI would like to see OTS improve its efforts by providing sensitivity training for bank examiners, becoming more aggressive in chartering new thrifts, and demonstrating greater commitment by OTS' top management.

The NBA, which represents minority- and women-owned banks, also offered some suggestions on how the agencies can improve their efforts. One suggestion is to establish a fund managed by FDIC to allocate capital to minority-owned financial institutions that are attempting to acquire an institution that is about to fail. According to NBA, the capital note is to be in the form of a loan to the acquirer and subject to repayment. FDIC is currently reviewing NBA's proposal. NBA also suggested that it be invited to meet with Treasury and FDIC on a quarterly basis to discuss problems and concerns of minority-owned financial institutions.

MARCA, which advocates the interests of minority- and women-owned businesses, including financial institutions and investment banking firms and other related professional entities, said that minorities have not experienced much success with purchasing assets or failed nonminority-owned institutions from RTC. They contend that minorities are treated differently than nonminorities by RTC. As such, MARCA suggested that RTC extend preference to minority groups when considering offers to acquire nonminority-owned institutions or branches located in minority communities.

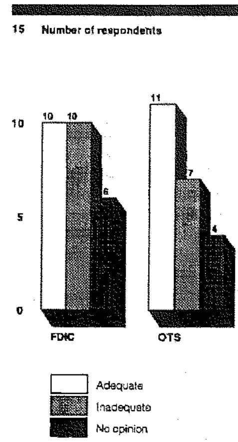
The 48 executives at minority-owned financial institutions whom we surveyed had mixed views on whether the amount of assistance provided by FDIC and OTS was adequate (see fig. 1).

**Figure 1: Mixed Views on Adequacy of Assistance Provided to Minority-Owned Financial Institutions by FDIC and OTS**




Similarly, the executives had diverse views on FDIC's and OTS' efforts to preserve their institutions (see fig. 2).

Figure 2: Diverse Views on FDIC's and OTS' Efforts to Preserve Minority-Owned Institutions




In our discussions with executives at minority-owned financial institutions, they elaborated on their views regarding FDIC's and OTS' efforts to provide assistance and preserve minority-owned financial institutions. Specifically, several executives commended OTS on its assistance and readiness to help. One executive complimented OTS on its quick approval of a transaction, thus preventing any obstacles that might have discouraged the investor. Similarly, some minority bank executives stated that FDIC was responsive to their needs. One executive stated that FDIC assisted the institution with receiving financing from a local foundation. Another executive commented that FDIC was responsive to questions about regulations.

In contrast, several executives expressed dissatisfaction with FDIC's and OTS' efforts to preserve their institutions. For example, one executive commented that FDIC was on a mission to destroy the bank, while another stated that OTS had not been helpful but had encouraged them to get out of the business. FDIC and OTS officials contend that various factors, chief among them the institutions' financial conditions, accounted for the negative nature of some of the executives' comments.

The executives also offered suggestions for improving the regulatory agencies' efforts to preserve minority ownership of financial institutions. One executive said that FDIC needs to develop special initiatives coordinated with NBA to help existing minority-owned financial institutions address capital needs, management issues, and regulatory concerns. Several executives commented that FDIC and OTS should provide their examiners with training on the unique circumstances of the minority-owned banking community and its practices. Other executives recommended that OTS and FDIC not use the same procedures to examine smaller institutions' loan portfolios that are used to examine larger banks. Finally, overall, the executives concluded that the amount of assistance provided by FDIC and OTS was inadequate. Accordingly, they suggested that more technical assistance could be provided.

FDIC and OTS said they have complied with the requirements of the law given that their missions are to ensure the safety and soundness of all institutions. However, neither had evaluated its program's effectiveness. More specifically, the agencies had not surveyed minority-owned financial institutions to determine whether their approaches were satisfying the statutory requirements. OTS said that it attempts to obtain comments from minority savings associations on issues affecting them during the annual certification process. However, OTS officials acknowledged that they generally had not received much feedback. FDIC, on the other hand, stated that although it had started to collect information on the financial condition of minority-owned banks, it had not obtained comments from the minority banking community to determine the effectiveness of its program. Officials at FDIC and OTS said that their focus had been on implementation rather than evaluation of their programs.

## Conclusions

While the agencies had taken some steps to preserve the minority ownership of financial institutions, they had not assessed whether the steps were effective. We believe that periodically surveying minority-owned financial institutions to assess the effectiveness of the current approaches is essential given the goals of the legislation and the mixed views from the minority banking community regarding the agencies' efforts. In addition, until the agencies evaluate the effectiveness of their current approaches, they remain vulnerable to the perception that they have not taken sufficient steps to preserve minority ownership of financial institutions.

## Recommendation

We recommend that the Secretary of the Treasury consult with FDIC, OTS, and RTC to systematically assess the effectiveness of their approaches to preserve minority-owned financial institutions. We believe that a key component of this effort should be surveys of minority-owned financial institutions to obtain their views on the efforts that are employed to preserve their institutions.

## Agency Comments

Treasury, FDIC, OTS, and RTC provided written comments on a draft of this report (see apps. III through VI). The four agencies agreed with our recommendation. Treasury agreed that its efforts to preserve minority-owned institutions should include a survey of minority-owned institutions for feedback on agency policies. Treasury also stated that it would reexamine its role with regard to section 308. FDIC asserted that it had exceeded section 308 of FIRREA's requirement that it merely consult with Treasury and had instead instituted an extensive program that seeks to preserve minority ownership. However, FDIC agreed that there is a need to assess its program's success and plans to investigate an appropriate evaluation method. OTS noted that it would be pleased to join in any interagency effort to develop objective and appropriate assessment tools for evaluating the agencies' approaches to preserving minority-owned financial institutions. Finally, RTC stated it had already drafted a survey that will be mailed to all registered minority-owned firms, investors, and consultants to obtain information on their experiences in dealing with RTC (see app. VI).

FDIC and OTS also suggested some technical corrections, which we incorporated in our report as appropriate.

We believe that the agencies' proposed actions will help achieve the goals of sections 308 and 403.

As arranged with the Committee, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies of this report to interested parties. Copies will also be made available to others on request.

The major contributors to this report are listed in appendix VII. Please contact me on (202) 736-0479 if you have any questions concerning this report.

Sincerely yours,

Gaston L. Gianni

Gaston L. Gianni, Jr.
Associate Director, Government
Business Operations Issues

Appendix I

# Minority-Owned Banks Supervised by FDIC as of March 31, 1993

Dollars in thousands

| | Banks | Ethnic Identity | Assets |
|---|---|---|---|
| 1. | First Tuskegee, Tuskegee, AL | African-American | $37,241 |
| 2. | American Bank and Trust Company, San Jose, CA | Asian-American | 35,577 |
| 3. | American International Bank Los Angeles, CA | Asian-American | 398,364 |
| 4. | Capital Bank of California Los Angeles, CA | Hispanic-American | 228,720 |
| 5. | Cathay Bank, Los Angeles, CA | Asian-American | 849,028 |
| 6. | Eastern International Bank, Alhambra, CA | Asian-American | 92,382 |
| 7. | General Bank, Los Angeles, CA | Asian-American | 879,378 |
| 8. | Pacific Heritage Bank, Torrance, CA | Asian-American | 220,709 |
| 9. | Pan American Bank Los Angeles, CA | Hispanic-American | 65,339 |
| 10. | Preferred Bank, Los Angeles, CA | Asian-American | 118,195 |
| 11. | United American Bank, Westminster, CA | Asian-American | 33,519 |
| 12. | Western State Bank, Duarte, CA | Asian-American | 49,080 |
| 13. | Industrial Bank of Washington, Washington, D. C. | African-American | 182,471 |
| 14. | Capital Bank, Miami, FL | Hispanic-American | 1,154,043 |
| 15. | Carver State Bank, Savannah, GA | African-American | 17,736 |
| 16. | First Southern Bank, Lithonia, GA | African-American | 25,193 |
| 17. | Bank of Guam, Agana, Guam | Asian-American | 562,499 |
| 18. | Bank of Honolulu, Honolulu, HI | Asian-American | 105,983 |
| 19. | Community Bank of Lawndale, Chicago, IL | African-American | 34,326 |
| 20. | Foster Bank Chicago, IL | Asian-American | 75,524 |

(continued)

Appendix I
Minority-Owned Banks Supervised by FDIC as of March 31, 1993

Dollars in thousands

| | Banks | Ethnic Identity | Assets |
|---|---|---|---|
| 21. | Highland Community Bank, Chicago, IL | African-American | 74,847 |
| 22. | Independence Bank of Chicago, Chicago, IL | African-American | 141,772 |
| 23. | International Bank Chicago, Chicago, IL | Asian-American | 8,983 |
| 24. | Mutual Trust & Savings Bank, Harvey, IL | Asian-American | 24,544 |
| 25. | Douglass Bank, Kansas City, KS | African-American | 29,016 |
| 26. | Liberty Bank and Trust Company, New Orleans, LA | African-American | 91,575 |
| 27. | United Bank & Trust Company, New Orleans, LA | African-American | 27,412 |
| 28. | Boston Bank of Commerce, Boston, MA | African-American | 73,894 |
| 29. | Liberty Bank and Trust Company, Boston, MA | Asian-American | 24,433 |
| 30. | Harbor Bank of Maryland, Baltimore, MD | African-American | 58,095 |
| 31. | Lumbee Guaranty Bank, Pembroke, NC | Native-American | 37,482 |
| 32. | Mechanics & Farmers Bank, Durham, NC | African-American | 110,769 |
| 33. | Centinel Bank of Taos, Taos, NM | Hispanic-American | 64,252 |
| 34. | El Pueblo State Bank, Espanola, NM | Hispanic-American | 31,977 |
| 35. | Golden City Commercial Bank, New York, NY | Asian-American | 64,310 |
| 36. | American State Bank, Tulsa, OK | African-American | 17,143 |
| 37. | First State Bank, Hulbert, OK | Native-American | 16,311 |
| 38. | American State Bank, Portland, OR | African-American | 11,850 |
| 39. | Banco Financiero de Puerto Rico, Ponce, PR | Hispanic-American | 43,460 |
| 40. | Victory Savings Bank, Columbia, SC | African-American | 14,762 |

(continued)

Dollars in thousands

| Banks | Ethnic identity | Assets |
|---|---|---|
| 41. Citizens Savings Bank and Trust Company, Nashville, TN | African-American | 34,991 |
| 42. Tri-State Bank of Memphis, Memphis, TN | African-American | 76,015 |
| 43. Commerce Bank, Laredo, TX | Hispanic-American | 96,292 |
| 44. Falfurrias State Bank, Falfurrias, TX | Hispanic-American | 12,222 |
| 45. First Texas Bank, Dallas, TX | African-American | 106,758 |
| 46. International Bank of Commerce, Brownsville, TX | Hispanic-American | 150,422 |
| 47. International Bank of Commerce, N. A., Zapata, TX | Hispanic-American | 76,401 |
| 48. International Bank of Commerce, Laredo, TX | Hispanic-American | 1,539,617 |
| 49. State Bank Texas, Dallas, TX | Asian-American | 26,200 |
| 50. First State Bank, Danville, VA | African-American | 30,540 |
| 51. Emerald City Bank, Seattle, WA | African-American | 7,845 |
| 52. North Milwaukee State Bank, Milwaukee, WI | African-American | 30,147 |
| **Total** | | **$8,319,644** |

Source: FDIC and Federal Reserve System's Minority Bank Depository Program listing.

Appendix II

# Minority-Owned Thrifts Supervised by OTS as of March 31, 1993

Dollars in thousands

| | Thrifts | Ethnic identity | Assets |
|---|---|---|---|
| 1. | Citizens Federal Savings Bank, Birmingham, AL | African-American | $79,105 |
| 2. | Gulf Federal Bank, FSB, Mobile, AL | African-American | 12,112 |
| 3. | Broadway Federal Savings and Loan Association, Los Angeles, CA | African-American | 99,071 |
| 4. | Family Savings and Loan Association Los Angeles, CA | African-American | 153,104 |
| 5. | First Global Bank, FSB, Los Angeles, CA | Asian-American | 60,510 |
| 6. | First Public Savings Bank, Los Angeles, CA | Asian-American | 249,266 |
| 7. | Gateway Bank, FSB, San Francisco, CA | Asian-American | 59,194 |
| 8. | Sincere Federal Savings Bank, San Francisco, CA | Asian-American | 75,097 |
| 9. | Standard Savings Bank, Los Angeles, CA | Asian-American | 328,410 |
| 10. | Trust Savings Bank, Arcadia, CA | Asian-American | 110,024 |
| 11. | Independence Federal Savings Bank, Washington, D. C. | African-American | 247,084 |
| 12. | First Florida Savings Bank, FSB, Miami, FL | Hispanic-American | 93,746 |
| 13. | Interamerican Federal Savings Bank, Miami, FL | Hispanic-American | 124,631 |
| 14. | Metro Savings Bank, FSB, Orlando, FL | African-American | 10,440 |
| 15. | Ponce De Leon Federal Savings and Loan Association, Coral Gables, FL | Hispanic-American | 67,552 |
| 16. | Mutual Federal Savings & Loan Association of Atlanta, Atlanta, GA | African-American | 36,146 |
| 17. | Guam Savings & Loan Association, Agana, Guam | Asian-American | 52,062 |

(continued)

Dollars in thousands

| Thrifts | Ethnic Identity | Assets |
|---|---|---|
| 18. International Savings & Loan Association Honolulu, HI | Asian-American | 454,182 |
| 19. Territorial Savings and Loan Association, Honolulu, HI | Asian-American | 303,072 |
| 20. Illinois Service Federal Savings and Loan Association, Chicago, IL | African-American | 103,938 |
| 21. Advance Federal Savings & Loan Association Baltimore, MD | African-American | 34,782 |
| 22. Ideal Federal Savings Bank, Baltimore, MD | African-American | 7,573 |
| 23. Home Federal Savings and Loan Association, Detroit, MI | African-American | 21,765 |
| 24. First Commerce Savings Bank, FSB, Jackson, MS | African-American | 7,524 |
| 25. Dona Ana Savings and Loan Association, F. A., Las Cruces, NM | Hispanic-American | 57,569 |
| 26. Abacus Federal Savings Bank, New York, NY | Asian-American | 65,971 |
| 27. Carver Federal Savings Bank, New York, NY | African-American | 328,889 |
| 28. Chinatown Federal Savings Bank, New York, NY | Asian-American | 70,356 |
| 29. Ponce De Leon Federal Savings Bank, Bronx, NY | Hispanic-American | 118,918 |
| 30. Berean Federal Savings Bank, Philadelphia, PA | African-American | 31,447 |
| 31. Dwelling House Savings and Loan Association, Pittsburgh, PA | African-American | 16,568 |
| 32. Caribbean Federal Savings Bank, Carolina, PR | Hispanic-American | 76,713 |

(continued)

Dollars in thousands

| Thrifts | Ethnic identity | Assets |
|---|---|---|
| 33. Catano Federal Savings and Loan, Association, Catano, PR | Hispanic-American | 13,369 |
| 34. Fajardo Federal Savings Bank, Fajardo, PR | Hispanic-American | 29,813 |
| 35. First Federal Savings Bank, Santurce, PR | Hispanic-American | 1,794,727 |
| 36. R&G Federal Savings Bank, Guaynabo, PR | Hispanic-American | 219,995 |
| 37. Western Federal Savings Bank, Mayaguez, PR | Hispanic-American | 664,145 |
| 38. Eastern American, FSB, McLean, VA | Asian-American | 54,339 |
| 39. Imperial Savings and Loan Association, Martinsville, VA | African-American | 8,394 |
| 40. United Savings and Loan Bank, Seattle, WA | Asian-American | 160,250 |
| 41. Columbia Savings and Loan Association, Milwaukee, WI | African-American | 12,828 |
| **Total** | | **$6,514,681** |

Source: OTS data.

# Comments From the Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON

UNDER SECRETARY

October 13, 1993

Gaston L. Gianni, Jr.
Associate Director, Government
Business Operations Issues
General Government Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Gianni:

Thank you for the opportunity to provide comments on your report Minority-Owned Financial Institutions: Status of Federal Efforts to Preserve Minority Ownership, dated September 1993. This letter is in response to the recommendations made in that report.

GAO auditors reviewed Treasury's implementation of section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) which requires Treasury to consult with the Federal Deposit Insurance Corporation and the Office of Thrift Supervision on methods to preserve minority ownership of financial institutions. The auditors recommend that the Secretary of Treasury lead an effort to systematically assess the effectiveness of the agencies' approaches to preserve minority-owned financial institutions. In addition, the auditors believe this effort should include surveying minority-owned financial institutions to obtain their views on the efforts that are employed to preserve their institutions.

The Treasury strongly supports the goals, outlined in Section 308 of FIRREA, of preserving existing minority-owned financial institutions and encouraging the creation of new ones. As your report notes, Treasury has sponsored four interagency meetings to review and coordinate agency policies regarding minority-owned depository institutions and actively monitors the status of these institutions. We believe these efforts greatly contribute to the process by which the agencies can assess the effectiveness of their minority-owned institution policies.

See p. 5.

Historically, Treasury's responsibility under Section 308 has been to facilitate the flow of information among the agencies. Therefore, in order to ensure a complete review of agency policies, participation in the regular interagency meetings was expanded beyond the statutory requirements to include the Office of Comptroller of the Currency, the Federal Reserve, the Resolution Trust Corporation, and the Thrift Depositor Protection Oversight Board. At the most recent April 1993 meeting, and at Treasury's request, the National Credit

2

Union Administration and the Commerce Department's Minority Business Development Agency made presentations covering their agencies' policies and programs to aid minority-owned financial institutions.

See p. 19.

Treasury agrees with the GAO auditors that our efforts should include surveying minority-owned institutions for feedback on agency policies. We will re-examine the role that Treasury should take with regard to its Section 308 responsibilities.

Thank you again for the opportunity to comment on your draft report.

Sincerely,

Frank N. Newman

Frank N. Newman
Under Secretary of the Treasury
Domestic Finance

Appendix IV

# Comments From the Federal Deposit Insurance Corporation

**FDIC**
**Federal Deposit Insurance Corporation**
Washington, DC 20429

Office of Executive Director
Supervision and Resolutions

October 12, 1993

Mr. Gaston L. Gianni, Jr.
Associate Director, Government
Business Operations Issues
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Gianni:

SUBJECT: Response to Draft GAO Report to the Chairman, Committee on Government Operations, House of Representatives

Thank you for the opportunity to further explain our compliance efforts with section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). It is evident that prior to the publication of the report entitled Minority-Owned Financial Institutions: Status of Federal Efforts to Preserve Minority Ownership further clarification is needed.

Summary of FDIC Efforts:

It should be noted that we have undertaken extensive efforts on behalf of section 308 of FIRREA which we feel far exceed the statutory mandate of merely consulting with Treasury. While your report mentioned these endeavors, we would like to present a more comprehensive summary of our efforts:

See p. 6.

- On April 3, 1990, the FDIC Board of Directors adopted a policy statement which recognized the unique status of minority-owned depository institutions in the financial system and expressed the Division of Supervision's policy of preserving minority ownership of financial institutions and encouraging minority participation in the management of financial institutions. This policy statement is crucial for understanding the FDIC's efforts with respect to preserving and working with minority-owned institutions and as such, we are attaching a copy to this response.

See comment 1.

Mr. Gaston L. Gianni 2

See p. 6.

- On November 11, 1992, the Division of Supervision issued a regional directive requiring the designation of regional minority-owned institutions banking coordinators. These individuals would be responsible for quarterly reports which would detail the actions taken by the region to further section 308's goals. The four quarterly reporting requirements are detailed on page 12 of your report. It should be noted that item (4) "a listing of banks whose performance is marginal or unsatisfactory, regardless of ownership, that serve minority communities" goes far beyond section 308's legislative intent. With this information, we seek to have warning well in advance should an institution be in danger of failing which predominately serves a minority community. As such, we can monitor and ensure the continuance of banking services to these communities.

See pp. 2 and 6.

- On July 14, 1993, the Division of Supervision issued a directive reiterating the procedures for failing minority owned institutions. Page 4 of your report implies that this memorandum instituted the preference for minority bidders which is not the case. Rather, this preference is statutorily mandated in some cases by section 13 (f) of the Federal Deposit Insurance Corporation Act. Specifically, when an override of state law is necessary to effect the acquisition of a failed or failing minority institution, section 13(f)(6)(C) provides that the FDIC shall seek offers for the resolution of a failing minority institution prior to seeking offers from non-minority acquirers and section 13(f)(12) removes the asset size threshold for interstate acquisitions in the case of minority bidders for a failing minority-owned institution.

<u>The Results of the Survey are Inconclusive:</u>

See comment 2.

We found the survey you developed to ascertain the effectiveness of the agencies' programs interesting. However, we are not sure what conclusions to draw. First of all, without the benefit of having the actual survey questions included in the report, there is no way to determine the nature and connotation of the questions posed. Secondly, it is difficult to analyze the results since the terms "mixed" and "diverse" are used to describe the views of the respondents. These conclusions are further illustrated by the charts on pages 27 and 28 which indicate that the responses to the two questions are just about evenly split between those who deem our efforts to be adequate and those who do not. In addition, there is the proportionately significant group who offered no opinion at all.

Now on pp. 16 and 17.

Mr. Gaston L. Gianni 3

Ownership Considerations are Not a Factor for Enforcement Actions:

Now on p. 7.

We wish to clarify comments on pages 12 and 13 of the report which could be misconstrued to indicate that the FDIC has on occasion been more "lenient" with respect to its enforcement actions directed towards a minority institution. Page 13 reports that on four occasions, FDIC "issued memorandums of understanding rather than cease and desist orders, which are more formal and legally enforceable in court...". We wish to emphasize that all enforcement actions, albeit formal or informal are designed to be remedial in nature. Whether a given formal or informal approach is taken would depend on a variety of factors inherent in the individual institution. While it is true that we work closely with minority-owned institutions which in some instances might obviate the need for a more formal action, in general we would assuredly take whatever enforcement action deemed necessary, regardless of ownership considerations.

See p. 7.

Technical Corrections:

A few technical corrections need to be made:

Now on p. 7.

- Page 12 discusses the FDIC's approval of a transaction which allowed a troubled minority-owned bank to acquire a failed credit union in September 1992 resulting in the improvement of the bank's overall financial condition not "rating" as indicated in the report.

Now on p. 6.

- Page 10's discussion of the minority bank resolution process should read as follows:

> With respect to resolving failed minority-owned banks, the FDIC will generally solicit bids from eligible minority-owned financial institutions nationwide during its marketing effort. The actual selection of the winning bidder is governed by the least cost approach as mandated by the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA")'s amendments to section 13(c) of the FDI Act. In some cases, section 13(f) of the FDI Act preempts state law restrictions on interstate acquisitions of failed or failing minority institutions for the benefit of minority acquirers but not for the benefit of non-minority acquirers.

Now on p. 24.

- Page 36 lists as a source the Federal Reserve System. This should instead be the listing of institutions participating in the Federal Reserve Board's Minority Bank Depository Program prepared by the Board of Governors of the Federal Reserve System.

Mr. Gaston L. Gianni

<u>Conclusion:</u>

See p. 19.

In conclusion, we appreciate this opportunity to provide commentary on our continuing efforts to be sensitive to the needs of the minority-owned institutions under our jurisdiction. We assert that we have exceeded FIRREA's section 308 statutory requirements that we merely consult with Treasury, and we have instead instituted an extensive program which seeks to preserve minority ownership. Furthermore, our program extends to ensuring continued banking services to minority communities as well. We do agree, however, that there is a need to assess the success of our programs and therefore we concur with your comments in this regard and will investigate an appropriate evaluation method.

Sincerely,

John W. Stone

John W. Stone
Executive Director

Attachment

## GAO Comment

1. The policy statement was summarized on page 6. As a result, we have excluded the entire policy statement from the report.

2. In our telephone survey of executives at minority-owned financial institutions, we interviewed them on FDIC and OTS' efforts regarding assistance, preservation, expansion, and suggestions for improvements. The information obtained from the executives is discussed on pages 17 through 19 of this report.

Appendix V

# Comments From the Office of Thrift Supervision

Office of Thrift Supervision
Department of the Treasury
1700 G Street, N.W., Washington, D.C. 20552 • (202) 906-6590

Director

Mr. Gaston L. Gianni, Jr.
Associate Director
Government Business Operations Issues
General Accounting Office
Washington, D.C. 20548

Dear Mr. Gianni:

Thank you for the opportunity to comment on your draft report entitled Minority-Owned Financial Institutions: Status of Federal Efforts to Preserve Minority Ownership. Enclosed are some technical comments.

See p. 19.

Your major substantive recommendation is that the Secretary of the Treasury lead an effort to assess in a formal and systematic manner the effectiveness of the agencies' approaches to preserving minority-owned financial institutions. We will be pleased to join in any interagency effort to develop objective and appropriate assessment tools.

We are committed to preserving minority institutions and we are always interested in how we can continue to strengthen our program.

Please let me know if we can be of any further assistance.

Sincerely,

Jonathan L. Fiechter
Acting Director

Enclosures

# Comments From the Resolution Trust Corporation

RESOLUTION TRUST CORPORATION
Resolving The Crisis
Restoring The Confidence

September 23, 1993

MEMORANDUM TO: Gaston L. Gianni, Jr.
Associate Director,
Federal Management Issues
U. S. General Accounting Office

FROM: J. Paul Ramey
Vice President
Department of Resolutions

SUBJECT: GAO Report B-254636, MINORITY-OWNED FINANCIAL INSTITUTIONS, Status of Federal Efforts to Preserve Minority Ownership

We have reviewed subject report, and appreciate the opportunity to respond and take actions which will help satisfy the issues raised by the report.

We are pleased that the results illustrated in your report indicate a satisfactory effort on our part to preserve and protect the minority ownership of the banking institutions offered for sale by the RTC. We are concerned, however, that some minority sectors feel frustrated and unable to take advantage of opportunities offered. While we have continuously attempted to respond to our overall market in offering transactions in the forms most desired, we do believe we can always do more to get our message to the minority community.

See p. 19.

To that end, and in agreement with your recommendation on page twenty-nine of this report, we have already constructed a survey, draft copy attached, to be mailed to all minority owned firms, investors and consultants registered with us, and all other known minority owned financial institutions. This survey was designed to extract the frustrations and roadblocks (either real or perceived) experienced or anticipated by minority groups in dealing with the RTC. Pending legislation does contain certain minority preference provisions. Therefore, we will not mail the survey at this time. That is, we feel obliged to wait until the legislation is finalized to determine what, if any, adjustments need to be made. The results of this survey will be reviewed and, to the extent possible, RTC procedures will be adjusted to address those frustrations.

801 17th Street, N.W. Washington, D.C. 20434

cc. Mr. Roelle
Mr. Held
Mr. Hoch
Ms. Lorentzen
Ms. Conquest (GAO)

DRAFT

1. In an effort to reach as many potential bidders as possible, the RTC announces thrifts being placed for sale by running one-day ads in *The Wall Street Journal* and the *American Banker* and by direct mail to members of the National Marketing List (NML). The direct mail announcements are sent to NML members that either expressed interest in a specific institution being marketed or in the state where one or more of the thrifts is located. Please indicate whether you find that these efforts adequately meet your needs and, if not, what other publications or methods could bolster this effort.

2. Please check all of the following that apply to your organization:

____ We have attended one or more bid conferences for thrifts being sold by RTC.

____ We have conducted due diligence at an RTC thrift.

____ We have placed a bid on an RTC thrift.

____ We have acquired a thrift or branch or branch cluster from RTC.

If you have not participated in any or some of the above activities, please indicate on an attachment why you have not done so.

3. In order to open the process to potential bidders of all sizes, the RTC offers large thrifts by whole units and by individual branches and/or branch groupings. (The RTC defines large thrifts as those that held $500 million or more in deposits when placed in conservatorship.) Moreover, whenever a larger thrift is not available on an individual branch basis, the RTC generally permits consortium bids.

a. Were you aware that large thrifts were offered both as a whole and in smaller branch groupings?

b. Have you ever bid on an individual branch or branch group unit of a larger thrift?

c. Were you aware that the RTC permitted consortium bids?

d. Have you ever participated in a consortium bid for an RTC thrift?

4. The RTC has adopted special minority preference procedures for use in the sale of thrifts that were previously minority owned. (Enclosed is a copy of those procedures and guidelines.)

a. Were you aware of these minority preference procedures used in the sale of previously minority owned thrifts?

DRAFT

b. Have you ever bid on a minority thrift under these guidelines? If so, was your bid a winning bid?

c. Please attach comments/suggestions you have about these procedures.

5. The Congress also authorized the RTC to provide interim capital assistance to qualified minority investors acquiring thrifts from the RTC.

a. Have you placed a bid for a minority thrift based on interim capital assistance? If so, was your bid a winning bid?

b. Given the restrictions placed by statute on the interim capital assistance program to ensure that the assistance is short term and only available to minority investors, what changes would you like made to the existing procedures?

6. The RTC Refinancing, Restructuring and Improvement Act of 1991 authorized the RTC to accept bids based on interim capital assistance from qualified minority bidders on thrifts or thrift branches that were previously majority owned. The law requires that the RTC can only consider interim capital assistance based bids from minority investors if there is no cost effective bid without such assistance from a qualified bidder. Moreover, the interim capital assistance bid must be lower cost to the RTC than a direct payoff of deposits.

a. Have you ever placed a bid based on interim capital assistance for a previously majority owned thrift or branch(es)? If so, was your bid a winning bid?

b. Given the legal constraints, how could this interim capital procedure be improved?

7. Please check any of the following factors that limit your organization's participation in the RTC bidding process.

____ The institution or branch clusters being offered for sale were too big.

____ The RTC did not offer sufficient assets with the institution.

____ The RTC did not provide enough information about the institution.

____ The amount of regulatory capital required was too great.

____ No institutions or branches have been offered in the geographic area of interest to us.

**DRAFT**

____ The sales process takes too much time from the initial marketing of a thrift to the final sale.

____ The sales process does not allow ample time from the initial marketing of a thrift to the final sale.

____ Obtaining a charter in order to accomplish the transaction is too difficult.

____ Other (please explain)

8. Please elaborate on the concerns noted in the above question as well as other factors that have impeded or precluded your organization's participation in the RTC's thrift sales process.

9. Has the chartering process impeded or precluded your organization's participation in the RTC's thrift sales process? Please elaborate on problems you have encountered and offer suggestions on how the process might be improved.

10. The RTC is interested in attracting more minority investors to participate in all the remaining thrift sales. Adhering to the statutory mandate that RTC sell thrifts through a fair, competitive process and that RTC select the most cost-effective resolution, how could the RTC process be changed so that it both attracts more minority bidders into the process and facilitates more winning bids from minority bidders?

Thank you for completing this survey. If you would care to identify your organization, please answer the remaining questions. If you prefer to remain anonymous, no further responses are necessary.

____________________ ____________________
(Name of organization) (RTC account number)

____________________
(City, State)

____________________ ____________________
(Name of contact person) (Telephone number)

Please attach the names of the institutions you have bid on in the past and indicate those that were winning bids.

Appendix VII

# Major Contributors to This Report

## General Government Division, Washington, D.C.

Earl F. Walter, Assistant Director, Government Business Operations Issues
Tammy R. Conquest, Evaluator-in-Charge
Arnel P. Cortez, Evaluator
Katherine M. Wheeler, Publishing Advisor
Kenneth John, Senior Social Science Analyst
Lessie Burke, Writer-Editor

## Office of the General Counsel

Susan Linder, Senior Attorney

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

SANDRA F. BRAUNSTEIN
DIRECTOR
DIVISION OF CONSUMER
AND COMMUNITY AFFAIRS

December 4, 2007

The Honorable Melvin L. Watt
Chairman
Subcommittee on Oversight and Investigations
Committee on Financial Services
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

I am pleased to respond to the four questions you posed subsequent to my testimony for the October 30, 2007, hearing titled, "Preserving and Expanding Minority Banks." My responses to your questions are discussed in the enclosures to this letter. A copy of this letter has been forwarded to the Committee for inclusion in the hearing record.

Please let me know if I can be of further assistance.

Sincerely,

Sandra Braunstein

Enclosures

Ms. Sandra Braunstein subsequently submitted the following in response to written questions received from Chairman Watt in connection with the October 30, 2007, hearing before the House Oversight and Investigations Subcommittee of the Financial Services Committee.

***(1) Please provide further details about the new training and technical assistance program that the Fed expects to be in operation in 2008.***

***(a) How is this program different from past efforts?***

***(b) What stakeholders did the Fed engage in developing this new plan?***

***(c) Provide further details about each of the three modules of the new training program referenced at page 3 of your testimony.***

***1a) How is this program different from past efforts?***

The Federal Reserve System's new program, "Partnership for Progress: A Program for Minority-Owned and De Novo Institutions" is the first national, comprehensive program of its kind to address the unique challenges facing minority-owned institutions (MOIs). The program incorporates proactive training that includes class-room style workshops, a self-paced PC-based program, and a web-based resource and information center, which provides different formats for disseminating information to minority-owned institutions. The program also includes a strong technical assistance framework that helps minority-owned institutions build stronger relationships with their regulator.

Previously, the Federal Reserve System did not have a central repository from which to draw or retain educational materials specifically for MOIs. This new program leverages the collective expertise of staff from throughout the Federal Reserve System to build a comprehensive program with a national focus. At the same time, however, the program is flexible and may be expanded or otherwise customized to fit the special needs of a particular minority-owned institution. Additionally, the online feature of the program will provide bankers an opportunity to review a wealth of information on their own. It should be noted that while the program's primary target audience is MOIs, portions of the program apply more broadly to de novo institutions, which may find the information, as well as participation in the program, useful.

To ensure that the program remains current and responsive to the needs of minority banks, we plan to survey participants at the conclusion of each program to determine how well the program met their needs and to obtain their suggestions on potential improvements. Survey information, along with insights gained informally through either instructor interaction with program participants or any subsequent technical assistance provided, will be incorporated into the program on an ongoing basis. Feedback from the pilot sessions of the program planned through January 2008 will also be incorporated into the program.

As noted in Federal Reserve Governor Kroszner's August 1, 2007, speech to the Interagency Minority Depository Institutions National Conference in Miami, Florida, and my October 30 testimony to this Subcommittee, key concepts from the MOI program will be incorporated into Federal Reserve System examiner training. Inclusion of these concepts stems, in part, from comments received from MOI bankers interviewed in conjunction with this project. During the interviews, many bankers opined that providing examiners with a deeper understanding of MOI business strategies and how these differ from traditional banking models would help examiners accurately assess MOI performance from a supervisory perspective. For example, one MOI with a high percentage of Asian customers noted that its customer base engages largely in cash-based transactions and prefers to place funds in a safe deposit box instead of a deposit account. These customers are also reluctant to borrow from a bank and tend to pay off loan balances quickly.

The Partnership for Progress program continues the Federal Reserve System's ongoing commitment to support and strengthen minority-owned institutions. We believe that the variety and depth of the resource materials developed for this program, coupled with the multiple distribution channels envisioned, will enable us to address the needs of different minority-owned institutions more easily and efficiently. More information about the program may be found on its national website at http://www.philadelphiafed.org/src/examinations/moi.cfm.

***1b) What stakeholders did the Fed engage in developing this plan?***

The content and form of the program was largely influenced through interviews with MOIs located across the country, as well as interviews with trade groups, bank consultants, and state and federal banking agencies.[1] During those interviews, System staff presented a draft MOI program framework and asked for recommendations and suggestions. Many of these suggestions were incorporated into the current program, particularly those relating to board member selection and training, management team selection, staff recruitment and retention, growth strategies, key decision points for startups, IT platforms and vendor selection, risk management practices, and regulatory relationships.

System staff met with representatives from the Conference of State Bank Supervisors, the National Bankers Association and the state banking agencies for Pennsylvania, New Jersey, Illinois, Georgia, and California. Staff also met with the federal regulatory

[1] Institutions interviewed included: United Bank of Philadelphia, Philadelphia, PA; Asian Bank, Philadelphia, PA; Legacy Bankcorp, Milwaukee, WI; Promerica, Los Angeles, CA; Holladay Bank & Trust, Salt Lake City, UT; Nevada Security Bank, Reno, NV; West Valley National Bank, Avondale, AZ; Commonwealth Business Bank, Los Angeles, CA; Citizens Trust Bank, Atlanta, GA; Capital City Bank and Trust, Atlanta, GA; Western Alliance, Las Vegas, NV; and East-West Bank, Pasadena, CA. Although not a minority-owned bank, staff also met with Shorebank, Chicago, IL, a community development financial institution dedicated to economic revitalization. System staff also interviewed Carpenter and Company, Irvine, CA, a community bank consulting firm.

agencies--the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision.

***1c) Provide further details about each of the three modules of the new training program referenced at page 3 of testimony.***

The MOI program is comprised of three separate modules that focus on the different development stages of an institution. The first module targets developing institutions and the basic information necessary for the formation of a new and successful bank. For example, this module discusses the steps necessary to file applications for a banking charter, Federal Reserve membership, and related issues. The second module targets new institutions (typically five years old or younger) that are trying to stabilize their operations and become profitable in a competitive environment. (For institutions with specific concerns or issues, an expanded module that addresses their particular concerns may be substituted here.) The third module assists mature institutions in achieving growth targets in a safe and sound manner. A more complete description of each module and the accompanying components is attached.

We held our first pilot workshop for the first Partnership for Progress at the Federal Reserve Bank of Philadelphia on November 1, 2007. This pilot focused on module three, "Growing Shareholder Value" and addressed branching, market growth, risk management, and measuring board and executive management performance. The program, which was attended by MOIs representing different constituencies, included a lively dialogue between the trainers and participating bankers. Bank attendees included: Asian Bank, Philadelphia, PA (Chinese); MoreBank, Philadelphia, PA (Korean); Indus American Bank, Iselin, NJ (East Indian); First Choice Bank, Lawrenceville, NJ (multi-cultural); and United Bank, Philadelphia, PA (African-American).

Two more pilots are currently scheduled through the end of January 2008. These pilot sessions will target different audiences and topics. Briefly, these pilots include:

- A December 13, 2007, session at the Federal Reserve Bank of Atlanta designed to provide technical assistance and guidance concerning capital funding, asset quality, real estate, and appraisals. Attendees will include representatives from Citizens Trust, Atlanta, GA (African-American); Capital City Bank and Trust, Atlanta, GA (African-American); and First Tuskegee, Tuskegee, AL (African-American).

- A January 29, 2008, session at the Federal Reserve Bank of San Francisco focusing on de novo issues. De novo banks in the Los Angeles area will be invited to attend.

In addition, the Federal Reserve Bank of Philadelphia will host a special one-on-one workshop for the board of directors for Open Arms Bank, a Latino-owned de novo currently in formation. The workshop will focus on specific technical assistance and guidance requested by the bank.

***(2) You state on page 6 of your testimony that the Fed and other regulators issued for comment a proposed "Question and Answer" regarding the Community Reinvestment Act, clarifying that majority institutions will receive favorable CRA consideration for investing and partnering with minority institutions (even those outside the majority institution's assessment area.) Will this be effective in preserving and promoting minority banks?***

Investments by majority-owned institutions in MOIs, including purchasing certificates of deposit, purchasing nonvoting equity instruments, and providing loans and technical assistance represent a means of preserving and promoting MOIs. These measures provide funding sources, as well as critical expertise and guidance to such entities.

Banks are continuously looking for ways to participate in investments that will help meet the credit needs of their communities consistent with safety and soundness considerations, as well as participate in good investments that may be outside of their community. Clarifying that a majority institution will receive favorable CRA consideration for investing and partnering with MOIs (even those outside the non-minority institution's assessment area), will likely incent non-minority banks to continue to participate in these efforts, and therefore help preserve and promote minority banks.

The current CRA proposal, however, is but one means of promoting and preserving MOIs. Through the Federal Reserve System's community affairs function, the Board and the twelve Reserve Banks work to promote community development and fair and impartial access to credit by focusing on low- and moderate-income consumers and underserved communities that frequently include high minority populations. The community affairs function develops programs, partnerships, and initiatives that bring consumers into the financial and economic mainstream and that assist financial institutions in identifying viable opportunities in markets that may be underserved. The function also engages in research to help improve understanding of how financial services policies and practices affect lower-income households and neighborhoods. By promoting community and economic development of the areas in which the MOIs operate, these efforts indirectly support MOIs and the customers that they serve.

***(3) Does the Federal Reserve have any suggested legislative or regulatory changes to the Treasury Department's CDFI Fund financial and capital assistance programs to better serve, preserve or expand minority banks?***

At this time, we do not have any suggestions for legislative or regulatory changes to the Treasury Department's CDFI Fund financial and capital assistance programs.

***(4) Please explain the "peer review" process during Agency examinations for minority banks. Are minority banks compared against similarly situated minority banks, against larger banks, or some other metric?***

The FFIEC's Uniform Bank Performance Report (an analytical tool created for bank supervisory, examination, and management purposes) places each commercial bank into a national peer group based on asset size, metropolitan area, and number of branch offices. While these data are useful for comparing banks of similar size across the nation, the FFIEC report does not include a comparison of banks with unique markets, such as those of minority banks. Some Reserve Banks develop tailored peer review reports during examinations of MOI state member banks. Federal Reserve System staff members are creating customized minority bank peer groups in conjunction with the Partnership for Progress pilots. Going forward, these customized peer groups will be made available to the depository institutions and bank examiners on the Board's Internet site.

Attachment

**The Federal Reserve Board**
**Minority Owned Institutions and De Novo Outreach Program**
**Module Workshops**

# Module 1:
# GETTING STARTED

1. **De Novo Bank Applications Process**
   - Bank Charter Decision
   - Federal Reserve Membership
   - FDIC Insurance
   - Filing Fees to Consider
   - Public Nature of Applications
   - Timing of the Charter Application
   - What Regulators Look For
   - Holding Company Formation

2. **Capital Requirements**
   - Capital ratio requirements
   - Capital Offering Process
   - Considerations

3. **Officer/Director Background**
   - Recommended Qualities

4. **Profile of a Successful Board**
   - Recommended Considerations
   - Level of Independence, Commitment, Experience, etc.

5. **Core Characteristics of a Board Member**
   - Recommended Qualities
   - Individual Characteristics
   - Conflicts

6. **Core Characteristics of a Management Team**
   - Recommended Qualities
   - Individual Characteristics

7. **Officer and Director Background Reviews**
   - Passing background checks
   - Biographical and financial Reports
   - Common mistakes

# Module 1:
# GETTING STARTED (continued)

**8. Market Competition and Feasibility Study**

Define geographic market
Provide historical and current data for the market
Evidence that market will support the mission
Identify competition
Gather information on their products and services

**9. Demographic Analysis**

Characteristics that describe market
Relevant Analysis necessary

**10. Financial Projections**

Growth targets must be supported
Projections must be consistent with mission

**11. Growth (Rapid/Slow)**

Rapid Growth Risk
Market Conditions
Case Studies -Minority Focused Banks
Growth Guides
Managing Concentrations
Final Thoughts on Growth
When do you want more growth?
When do you want less growth?
Where do you want to grow?

**12. Outsourcing & Vendor Management**

What is Outsourcing?
Related Concepts
Benefits of Outsourcing
Risks Associated with Outsourcing
Risk Assessments & Requirements
Service Provider Selection
Contract Issues
Ongoing Monitoring (Vendor Management)
Examination Considerations
Outsourcing Best Practices
Key Takeaways

# Module 1:
# GETTING STARTED (continued)

## 13. The Supervisory Process (Regulatory Relations)

Relationship with Regulators
Top Examination Issues in Early Years
Top Risks for New Banks
Examination Frequency
Outreach Efforts

## 14. Credit Committee Responsibilities

Loan policies
Product limits and sub-limits.
Review problem and delinquent loan reports.
Review concentration reports
Ensure appropriate corrective action is taken

## 15. Asset/Liability Management Committee

Risk tolerances
Liquidity and funds management policy
Contingency funding plan

# Module 2:
# MANAGING TRANSITION IN YEARS 1-5

## 1. Capital

How much is necessary?
Components of Capital
Ramifications of Capital
Sources of Capital
Sources of Capital for Community Development Banks
Restrictions based on Capital Levels
Case Study: Ramifications of Insufficient Capital
Best Practices for Capital Plans

## 2. Credit Risk

Loan Policy
Credit Risk Management Issues
Interagency Guidance
Underwriting
Loan Review
Risk Ratings
Lending Restrictions
Top 5 Common Lending Mistakes
Red Flags
The best offense is a good defense... Chief Credit Officer Role
Lending Resources

## 3. Interest Rate Risk

Board or Management Responsibilities
Impacts of Interest Rate Risk
Types of Interest Rate Risk
Methods for Measuring Interest Rate Risk
Determining Interest Rate Risk Limits and Policy Suggestions
Identifying Interest Rate Risk in Products / Strategies
Hedging Interest Rate Risk
Best Practices – Interest Rate Risk

## 4. Compliance Issues

High Risk Regulations
Low Risk Regulations
FFIEC
Consumer Affairs Letters
Consumer Compliance Handbook
Other Regulations & Policies

# Module 2:
# MANAGING TRANSITION IN YEARS 1-5 (continued)

## 5. Outsourcing & Vendor Management

What is Outsourcing?
Related Concepts
Benefits of Outsourcing
Risks Associated with Outsourcing
Risk Assessments & Requirements
Service Provider Selection
Contract Issues
Ongoing Monitoring (Vendor Management)
Examination Considerations
Outsourcing Best Practices
Key Takeaways

## 6. New Product Implementation

New Product Issues
Due Diligence / Feasibility
Financial Projections
Risk Analysis
Legal Opinions
Liquidity Considerations
Compliance Considerations

## 7. Mergers and Acquisitions

Merger/Acquisition Key Drivers
Risks
Mitigation Strategies
Key Steps
Business Considerations
Regulatory Considerations
M&A Best Practices

## 8. Demographic Analysis

Characteristics that describe market
Relevant Analysis necessary

## 9. Growth (Rapid/Slow)

Rapid Growth Risk
Market Conditions
Case Studies -Minority Focused Banks
Growth Guides
Managing Concentrations
Final Thoughts on Growth
When do you want more growth?
When do you want less growth?
Where do you want to grow?

# Module 2:
# MANAGING TRANSITION IN YEARS 1-5 (continued)

**10. Liquidity**

Traditional Sources
Additional Sources for MOIs:
Assets
Best Practices - Liquidity
Liquidity Guidance
What is the Break-even Point?

# Module 3:
# GROWING SHAREHOLDER VALUE

## 1. Capital

How Much is Necessary?
Components of capital
Ramifications of Capital
Sources of Capital
Sources of Capital for Community Development Banks
Restrictions Based on Capital Levels
Case Study: Ramifications of Insufficient Capital
Best Practices for Capital Plans

## 2. Credit Risk

Loan Policy
Credit Risk Management Issues
Interagency Guidance
Underwriting
Loan Review
Risk Ratings
Lending Restrictions
Top 5 Common Lending Mistakes
Red Flags
The best offense is a good defense… Chief Credit Officer Role
Lending Resources

## 3. Interest Rate Risk

Board or Management Responsibilities
Impacts of Interest Rate Risk
Types of Interest Rate Risk
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Determining Interest Rate Risk Limits and Policy Suggestions
Identifying Interest Rate Risk in Products / Strategies
Hedging Interest Rate Risk
Best Practices – Interest Rate Risk

## 4. Compliance Issues

High Risk Regulations
Low Risk Regulations
FFIEC
Consumer Affairs Letters
Consumer Compliance Handbook
Other Regulations & Policies

## Module 3:
## GROWING SHAREHOLDER VALUE (continued)

### 5. Outsourcing & Vendor Management
What is Outsourcing?
Related Concepts
Benefits of Outsourcing
Risks Associated with Outsourcing
Risk Assessments & Requirements
Service Provider Selection
Contract Issues
Ongoing Monitoring (Vendor Management)
Examination Considerations
Outsourcing Best Practices
Key Takeaways

### 6. New Product Implementation
New Product Issues
Due Diligence / Feasibility
Financial Projections
Risk Analysis
Legal Opinions
Liquidity Considerations
Compliance Considerations

### 7. Mergers and Acquisitions
Merger/Acquisition Key Drivers
Risks
Mitigation Strategies
Key Steps
Business Considerations
Regulatory Considerations
M&A Best Practices

### 8. Demographic Analysis
Characteristics that describe market
Relevant Analysis necessary

### 9. Profile of a Successful Board
Responsibility to shareholders
Public perception
Important things successful directors know
Discuss examples of board composition
Recommended considerations
Level of independence, commitment, experience, etc.

# Module 3: GROWING SHAREHOLDER VALUE (continued)

**10. Core Characteristics of a Board Member**

Recommended qualities
Individual characteristics
Conflicts

**11. Measuring Board Member Performance**

Ensuring that risks are managed and adequately controlled
Effective oversight

**12. Methods for Measuring Board Member Performance**

Self assessments, surveys, etc
Track metrics on bank goals
Regulatory directives completed in timely manner

**13. Measuring Exec/Senior Management Performance**

Maintaining an effective executive and senior management team
Hold executive management accountable for execution
Evaluation forms, Surveys, etc.
Track metrics on bank goals

**14. Geographic Market Expansion**

Considerations
Bank stability
Demographics
Bank mission
Cost/benefit analysis, etc.

**15. Branching**

Considerations
Bank stability
Regulatory applications
CRA implications, etc.
If branching into new geographic markets see info above.

# Contributors

**Module 1**
FRB Atlanta: Andre Anderson, Robert Hawkins
FRB San Francisco: Steve Hoffman, Terry Schwakopf

**Module 2**
FRB Chicago: Sherry Bormann, Kristin Reinger,
Caroline Riley, Fran Smith, John Taylor
FRB Atlanta: Robert Hawkins
FRB Richmond: Gene Johnson, Rhiannon Chapman, Michael Poprik

**Module 3**
FRB Philadelphia: H. Robert Tillman, Connie Wallgren
FRB Atlanta: Robert Hawkins
FRB Chicago: Sherry Bormann, Kristin Reinger,
Caroline Riley, Fran Smith, John Taylor
FRB Richmond: Gene Johnson, Rhiannon Chapman, Michael Poprik

GAO Response to Question for the Record

**(1) On page 12-13 of your testimony, you indicate that some minority bank officials cite increased competition from larger banks as hurting minority bank profitability. Did GAO research reveal a tension between minority banks' viability and majority banks' investments in previously neglected communities through the CRA program? Explain.**

In conducting our work, many minority banks indicated that competition from other banks, credit unions, and nonbanks posed their institution's greatest challenge. In particular, minority banks said that larger banks, in response to CRA incentives, were increasingly posing competitive challenges among the banks' traditional customer base. The bank officials said that larger banks could offer loans and other financial products at more competitive prices because they can raise funds at lower rates and had advantageous operational efficiencies. Despite such challenges, I would note that officials from banks across minority banks were optimistic about the financial outlook for their institutions. For example, the officials said that minority banks enjoy advantages in serving minority communities

10-30-07

Mr. Chairman:

Before beginning my questions, I want to disclose publicly for the hearing record <u>that my husband serves on the board of a minority-owned bank.</u>

My Husband is also a Shareholder in One-United Bank —

Maxine Waters