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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.

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.