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WRITTEN TESTIMONY OF

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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]

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[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 the 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

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[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.