

**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.