DIVERSITY IN THE FINANCIAL SERVICES INDUSTRY AND ACCESS TO CAPITAL FOR MINORITY-OWNED BUSINESSES: CHALLENGES AND OPPORTUNITIES

HEARING

BEFORE THE

SUBCOMMITTEE ON
OVERSIGHT AND INVESTIGATIONS

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

JULY 15, 2004

Printed for the use of the Committee on Financial Services

Serial No. 108–101

U.S. GOVERNMENT PRINTING OFFICE

96–529 PDF WASHINGTON : 2004

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
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CONTENTS

DIVERSITY IN THE FINANCIAL SERVICES INDUSTRY AND ACCESS TO CAPITAL FOR MINORITY-OWNED BUSINESSES: CHALLENGES AND OPPORTUNITIES

Thursday, July 15, 2004

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

The subcommittee met, pursuant to call, at 10:08 a.m., in Room 2128, Rayburn House Office Building, Hon. Sue Kelly [chairwoman of the subcommittee] presiding.

Present: Representatives Kelly, Hensarling, Garrett, Brown-Waite, Gutierrez, Inslee, Davis and Frank (ex officio). Also present were Representatives Baca, Bell, Gonzalez, Napolitano, Scott and Waters.

Chairwoman KELLY. [Presiding.] This hearing of the Subcommittee on Oversight and Investigations will come to order.

This morning, the Subcommittee on Oversight and Investigations will examine the state of diversity in financial services, including access to capital for all businesses and communities. These issues are critically important to achieving full growth in our financial services sector and our overall economy.

A simple snapshot of our country's current employment composition displays some disparities among certain populations, particularly with regard to women and minorities. As a society, it is our responsibility to encourage the diversity in financial services that reflects the makeup of our country. It is also our responsibility to ensure that a lack of diversity does not translate in to a lack of confidence in any individual's ability to succeed at all levels of the financial industry.

Today, we will investigate these issues and discuss ways to improve efforts to achieve a more diverse financial sector and to improve access to capital.

Over the past few decades, the visibility and involvement of women and minorities in social, economic and political circles has continued to increase. An important part of increasing opportunities for all individuals begins at an early age. This means ensuring that every child has access to a first class education and the opportunity to succeed.

A key component of this education includes financial literacy for individuals at all ages. However, a strong education alone will not help improve access to all sectors, which is evident by the fact that the financial sector continues to lag behind other industries in representation. We must have a continued commitment from the public and private sectors in order to break down some barriers that still exist.

While there are still considerable strides that need to be taken to increase opportunities for all individuals, the financial services industry appears to be moving in the right direction. Currently, there is promising representation in the lower and middle management ranks; however, senior management ranks continue to pose challenges. There are also signals that senior management is starting to become more aware and active in expanding opportunities to all qualified candidates, regardless of their race or sex.

Some companies continue to be more successful at promoting diversity in their workplace than others. In fact, some major corporations today have diversity programs, which encourage and recruit qualified individuals in under represented populations. And many firms are also utilizing employee networks and formal mentoring programs to facilitate a more diversified workforce and to help all employees achieve their full performance and career potential. Since it is the tone at the top of a company that sets a good example for opportunity at all ranks, we must continue to challenge our Nation's business leaders to encourage these efforts.

Better representation in financial services should also improve access to capital for all individuals. Earlier this year, the Minority Business Development Agency of the Department of Commerce released a report entitled, "Expanding Financing Opportunities for Minority Businesses." This important study found that minority-owned businesses present an historic and dynamic growth opportunity for the U.S. economy.

The study also highlights the fact that, while minority-owned businesses are growing, they exist primarily in non-asset based industries rather than in capital intensive sectors. The subcommittee is very interested in the report's conclusion that the lack of access to financing impedes participation in certain sectors and that successful growth will require bringing minority entrepreneurial efforts into the economic mainstream.

We would like to hear more from our witnesses on how to improve access to capital and encourage this transition. I thank the witnesses for being here today, and I look forward to hearing your views on these issues.

With that, I turn to Mr. Gutierrez.

[The prepared statement of Hon. Sue W. Kelly can be found on page 40 in the appendix.]

Mr. GUTIERREZ. Good morning and thank you very much, Chairwoman Kelly, for calling this hearing, which Ranking Member Barney Frank and I spoke to you earlier this spring about calling, and I really want to thank you for this.

It is important that we attempt to understand why there remains a lack of diversity in the upper ranks of the financial services industry and explore options to alleviate this problem. I represent a very diverse congressional district in Illinois. The 4th District is mostly in the city of Chicago but encompasses part of the north side and parts of the south side, parts of Cicero, some very low-income neighborhoods, some working class and some somewhat prosperous neighborhoods.

Ethnically and racially, my district looks very much like a microcosm of America, and I don't see any reason why board rooms should not. All too often, we are exposed to executives in the financial services industries who are exclusively white and male. Sometimes it seems as though they all wear the same identical suits from Brooks Brothers.

However, today, we have before us a very different panel, not just in terms of their race, color, ethnicity or gender, but different in the sense of their recognition and belief that the board rooms of America's financial sector should reflect the strength and diversity of the American people. And each of the witnesses hear today has demonstrated a commitment to that cause.

My colleague and friend, chairman of the Congressional Hispanic Caucus, Ciro Rodriguez, from San Antonio once said growing up he never met a stockbroker. I know that sounds incredible to us on the Financial Services Committee where we probably talk to several of them every week, but as a young Latino, his neighbors and relatives were not accountants or bankers or stockbrokers, they were mechanics and teachers and cab drivers.

And there is nothing wrong with these honorable positions; I was a cab driver myself for four years. But my point is young people tend to strive for what they see as available goals. If no one they know is a banker or an accountant, it is less likely they will seek that out for themselves.

Today's witnesses will doubtless address the issue of reaching out to these young people who might otherwise be unaware of opportunities for success in the financial services industry. They will also provide valuable insight regarding recruiting, mentoring and retaining minority talent within the industry. And they will share personal stories of success and disappointment. I am looking forward to learning from their experiences and helping to implement their suggestions.

At a proper time, I would like to introduce Commissioner Padron from my one State of Illinois. With that, I yield back the balance of my time, and I thank the gentlelady for calling this hearing.

Chairwoman KELLY. I thank you, Mr. Gutierrez. You talk about having driven a cab. My first job was as a newspaper girl, and I picked berries in the fields and things like that. And the reason you do jobs like that when you are young is because you have hope that you can save a little money and get ahead. And that is what this hearing is all about.

I am going to do a little bit of bookkeeping here. Without objection, all members' opening statements will be made part of the record, and without objection, the gentleman from Texas, Mr. Gonzalez, the gentleman from Alabama, Mr. Scott, the gentleman from California, Mr. Baca, the gentleman from Texas, Mr. Hinojosa may participate in today's hearing. They may give opening statements and question witnesses under the five-minute rule. So ordered.

With that, I turn to Mr. Hensarling.

We are honored to have our ranking chairman, Mr. Frank.

Mr. FRANK. Thank you, Madam Chair. I appreciate very much your calling this hearing. As the Subcommittee's ranking member, Mr. Gutierrez mentioned, this was a subject that was important to us, and I just want to say that I am very pleased as the ranking member of the full committee. As you know, the chairman and I have been able to, I think, work very cooperatively and put differences in one place and work together, and this particular subcommittee, yourself and the gentleman from Illinois have been doing the same thing on a number of issues, like preemption and this, and I am very appreciative of that.

I also want to acknowledge that part of the impetus for this hearing on my part came from a visit to me from one of our witnesses. Professor Hammond, who teaches in my part of the country, approached me, wrote to me some time ago and pointed out this serious problem with regard to African-American representation in the accounting industry. We followed up. Ms. Jeffers on my staff talked with her, and I am very pleased that those conversations helped lead to this hearing.

The impetus also, of course, came from people in the New America Alliance and the Hispanic members of our committee, but I think this is a good sign that people aren't entirely wasting their time when they bring things to our attention. I am glad to be able to do that. And I am particularly pleased that we are having this hearing.

The financial services industry obviously has an extraordinary impact on the country. More and more of what we do in the country is part of the financial services industry. As we evolve, we know that manufacturing is less of a job source.

The financial services industry is a major part of our economy in two ways. First of all, of course, it performs this extraordinary mediating function. It helps the rest of the economy work.

But it is also a significant source of employment, and it is also—I guess I should have said three things—it is not only a significant source of employment, it is a significant source of wealth accumulation. People in the financial services industry get a chance not just to receive good salaries, but it is a very important way to build equity, and it is a very important way for them to help others build equity.

So having full representation of the various minority communities in the financial services industry is really absolutely essential if we are going to have the America we say we want to have and that I think we want to have. That is, unless we have good representation within our financial services industry of all of America, there will be segments of America that don't get the chance to be fully a part of this society that we want them to be. So I am very grateful.

And to the people in the private sector—and you say we obviously also have an obligation to talk about this in the public sector. We don't neglect that, we don't neglect our responsibility on our own committee, and it is one I take seriously to the extent that I have been able to select staff. And what we know is this: People who argue that we are in favor of some kind of tradeoff between diversity and quality are simply flatly wrong. That needs to be refuted.

We are not talking about making exceptions to the talent pool to accommodate minorities. We are talking about recognizing the fact that all of us, all of us have grown up with prejudices, all of us have grown up with a kind of tendency to prefer our own, even in ways that we are not fully conscious of. And what we are asking for is a conscious effort to recognize those facts.

No one denies that we have racism in the country, had bigotry, and we are making great progress, but you don't go from one point to another without passing through a phase in which you consciously counteract that.

That is what this is about, and I am very grateful to you, Madam Chair, and to the witnesses for their help in this, and I am delighted to see that our committee is able to be so well representative of these particular groups.

Chairwoman KELLY. Thank you very much, Mr. Frank.

We have been joined by the gentlelady from California, Ms. Napolitano, and without objection, she may also participate in today's hearing, give a five-minute opening statement and question witnesses under the five-minute rule. We welcome you.

We go now to Mr. Garrett.

Mr. Garrett has no opening statement, so we will move on to Mr. Scott.

Mr. SCOTT. Thank you very much, Madam Chair lady Kelly. I certainly want to thank you and Ranking Member Gutierrez and also our ranking member of our full Financial Services Committee, the gentleman from Massachusetts, Mr. Barney Frank, and the entire leadership of the Financial Services Committee for hosting this very important and very timely hearing. And thank you again, Ms. Kelly, for allowing me to speak and participate at this Oversight and Investigation Subcommittee hearing today.

The hearing's topic of diversity in the financial services industry is of particular interest to me for several reasons. The most important being the need to open access to capital to minority communities. Access to capital is important.

For the district that I represent around metro Atlanta where many financial firms are based, including SunTrust and Equifax. Wachovia and Sun SouthTrust, as we know, is just going through a merger procedure, and they will become the third largest financial institution in this country. And they are going to base their headquarters, their southern headquarters in Atlanta. And Bank of America, of course, has a strong presence in our city and in our region.

So most certainly, as the only member of Congress serving on the Financial Services Committee from Georgia and Georgia being certainly at the center of the financial services industry in this country, I am vitally interested in diversity in this area.

A recent article in the Wall Street Journal reported that minorities hold 12 percent of directorships in Standard and Poor's 500 country—up from 9 percent in 1999. That is very good to show that we are making progress, but not enough progress. While we must recognize the positive movement of these numbers, we can clearly see that much more is needed to diversify Wall Street.

Main Street is catching up much faster. For example, Atlanta was named the top city for African-Americans for 2004 by Black Enterprise. Atlanta earned that top ranking because of its entrepreneurial opportunities, its earning potential and its diverse cultural offerings and its rich history of committed black and white political and civic leadership doing its job.

And with that in mind, it is so good to have Michael Kennedy here, one of my constituents from Atlanta, Georgia, who is the manager of Diversity Program and financial services sector executive for Korn/Ferry International in Atlanta. And I want to give you a warm welcome and good to have you here before the committee.

I am an MBA graduate from the Wharton School of Finance. I am an entrepreneur, I own my own business. So I know firsthand what it means to struggle to build a business and the importance of diversity in the marketplace and the importance of access to capital. From the recent corporate scandals, we have learned that the more homogeneous a corporate board is or the more homogeneous its top executive ranks are, then the more likely the members of that firm will move in lockstep.

With so much discussion about the need for independent directors and diversity in top management, we should push for minority directors to join more corporate boards and executive ranks. Minority purchasing power in 2004, including African-Americans and Hispanics, is nearly 21 percent. The only way that financial institutions will find more future growth is by paying more attention to these trends. The marketing and earnings growth is growing from Asian, Hispanic, African-American and immigrant communities, and diversity in the top levels of management and its boards is critical to the future success of all of our financial service industries.

To tell you the truth, I was quite frankly disturbed last month by a story that I read in the Hill newspaper on June 23, which described the challenges faced by many talented minority lobbyists right here on Capitol Hill. And I recommend for those of you who have not read that story in the Hill to please read it. It will give you pause and give you reason to realize that while we have made some progress, there is much more progress we need to make.

Several of the lobbyists quoted are friends of mine who I highly respect. I understand that the majority leader has a K Street project which he is working to get more lobbyists hired, Republicans and hopefully Democrats. What would impress me is if there was a similar project with these high-profile lobbying firms which would hire more minorities and with their full value, for their full capabilities, who will serve both Republicans and Democrats.

Madam Chairwoman, I thank you for this opportunity. I do look forward to this distinguished panel, and thank you for having me here and presenting me with the opportunity. I look forward to asking questions from this panel's testimony. Thank you very much.

Chairwoman KELLY. You are very welcome.

Mr. Baca?

Mr. BACA. Thank you very much, Madam Chairman and Ranking Member Gutierrez. I want to thank both of you for holding this important hearing on diversity in financial service institutions and access to capital for minority-owned business.

As you may know, I am Chair of the Congressional Hispanic Corporate Responsibility, and part of our goal is to make sure that when we look at diversity it is reflective of our community. When we look at the total population of the United States, we have 44 million Hispanics in the United States. We have approximately 16 percent, and by the year 2050 we will represent one in 4 Hispanics in the United States. We currently represent about 800 and some billion dollars purchasing power right now, and by the year 2010, purchasing power will reach $1 trillion.

What does this mean? I also want to thank faces like the American Alliance, Maria, for being here and talking about access, because what we want to talk about is access to capital. When we look at it, there is the ability for people to have the ability to borrow money on fair and equal basis, not discriminatory towards minorities, whether you are Hispanic or black or Asian or Indian, but the opportunity to advance. This is a time where we are seeing a lot of our growth, but yet it is a time when we are actually cutting back funding for small businesses and opportunities for capital investment in that area.

As Chair of Corporate Responsibility, it is our responsibility to make sure that it is reflective of our community, because some of us would like to make sure that when we walk into a room that we see people that look like us. And that is on our board of directors, and we look at executive managerial positions, we look at purchasing power, loaning as well and media and philanthropy as well.

As Chair of Corporate Responsibility, hopefully we can hold a lot of the companies accountable and that they start making the right moves for the right reasons, because it is healthy for our country and it is healthy for us. If we move in that direction, I believe we will have more responsibility to make sure that the face of corporate America looks like the faces of America.

Unfortunately, Hispanics and some blacks are severely underrepresented on corporate boards. Hispanics hold less than 2 percent of the Fortune 1000 board seats. We hold less than 3 percent of executive positions in the financial services industry. This is just not acceptable. We expect corporate America to be a good citizen when it comes to their hiring practices, their business practices and their outreach to our community, not only in looking at our dollars, but also looking at hiring individuals that can be reflective in making our country a lot better.

I hope that we will learn a lot today, and this is a first step in the struggle for better representation of financial service industries. I look forward to hearing from the panelists in finding out how to improve access to capital, what is it that we need to do, how do we do it, what are some of the changes that need to be done to assure us that we can be at the table as well as anyone else and have a fair level of playing field for all Americans, for all minorities who have been underrepresented in this area for generations and generations.

Thank you very much, Madam Chair.

Chairwoman KELLY. Thank you, Mr. Baca?

Members are reminded of the five-minute rule, and I would respectfully respect that you keep your remarks within the five minutes simply because we have a long panel, and these people have come a long way. We need to hear what they have to say.

Mr. Bell, do you have an opening statement?

Ms. Napolitano?

Mrs. NAPOLITANO. Thank you, Madam Chairman. I will be very short and very brief. I am thankful for the opportunity to be here and glad that we have a hearing on such an important issue that deals with all minorities, women especially and minorities. We have been in small business thrusting for increasing funding to the women-owned SBDCs, to be able to do all the things that we have been fighting for years and continue to fight.

And when I see in your survey where it is a disagreement in the effectiveness of corporations achieving diversity goals, we begin to say, "Why?" People are there, and I know in some of my personal wanderings as a minority, sometimes they look at us and say, "Well, we can't find qualified minorities," which is a lot of you know what.

I am looking forward to this, and I hope that together all minorities working together and others who believe in what we are trying to do and the effectiveness for the benefit of this country that we will move forward.

Thank you, Madam Chair.

Chairwoman KELLY. Thank you. We will turn now to our first panel.

Our first witness is Ms. Ana Maria Fernandez Haar, chair of the Board of the New America Alliance and founder and CEO of the IAC Group, a full service, multicultural marketing and advertising firm. We welcome you.

Ms. Fernandez Haar, lectures on the subjects of transcultural marketing, global branding, market entry strategies in the United States and Latin America. She also serves on many foundation and community boards and has received significant professional recognition for her work.

Our next witness is associate professor of accounting at Boston College, Ms. Theresa A. Hammond. Professor Hammond is the chairperson of the Accounting Department at the Wallace E. Carol School of Management at Boston College. She is also a member of the National Association of Black Accountants and a co-founder of the African-American Accounting Doctoral Students Association.

Next is Mr. Michael D. Kennedy, the managing director in the Atlanta office of Korn/Ferry International, a global executive search firm. Mr. Kennedy leads the company's diversity specialty team in the financial services area. Prior to joining Korn/Ferry, Mr. Kennedy headed a venture capital consulting firm and held the position of vice president in the Corporate Finance Group at GE Capital Corporation.

We also have Mr. Marc Lackritz, president of the Securities Industry Association. Mr. Lackritz has appeared before the committee many times during his 14-year tenure at the SIA. We welcome you, sir. Again, he serves on a number of boards and advisory groups, including the Financial Accounting Standards Advisory Council, the American Council on Capital Formation, the Foundation for Investor Education.

And our next witness is Ms. Joanne Hanley, the president of Women in Housing and Finance, Incorporated. Ms. Hanley is also the associate director for Congressional Affairs at the Office of Federal Housing Enterprise Oversight, the OFHEO. In her role at Women in Housing and Finance, she works to promote women in the fields of financial services and housing through the professional enrichment and leadership enhancement.

Our final witness this morning will be introduced by our ranking chairman, Mr. Gutierrez.

Mr. GUTIERREZ. Thank you very much, Chairwoman.

Well, members of the committee, I am pleased to introduce the Honorable D. Lorenzo Padron who has served as commissioner of the Illinois Office of Banks and Real Estate since May of 2003. I have known the commissioner for many years, and I am pleased that he is able to be here today to share his personal experience with the subcommittee.

Mr. Padron's a well-known Chicago banker, civic leader and entrepreneur. Mr. Padron came to the U.S. from Colombia, South America in 1968 to attend the University of Illinois in Chicago where he earned a bachelor's degree in business management, and he also attended the University of Chicago Graduate School of Business.

Commissioner Padron entered the banking industry in 1977 at the First National Bank of Chicago and worked in the Commercial and International Banking Department. He became assistant vice president in the Commercial Loan Department at Banco Popular and then a senior vice president of Lending at Metropolitan Bank and Trust where he also served as a member of the bank's board of directors.

Commissioner Padron is a founding member of the Latin American Chamber of Commerce where he served as chairman of the board for the past nine years, the largest Hispanic trade association in the Midwest and one of the largest minority consulting firms.

He is also owned his own business. Commissioner Padron is the first Hispanic to lead the Illinois agency responsible for regulating and supervising State-chartered banks.

I will conclude by saying that although the commissioner is not here representing the Conference of State Bank Supervisors, I am pleased to report they have considerable diversity in their ranks at the top level. There are currently 6 African-American commissioners on the 50 States, 8 female commissioners, 3 Hispanic commissioners and considerable diversity at the deputy level.

It is an excellent start, and I would hope that steps in the right direction by State would be followed by the Federal Government in this and other matters. And I look forward to hearing from the commissioner.

Chairwoman KELLY. Thank you, Mr. Gutierrez.

We welcome you, Mr. Padron. I know you had a hard time getting here, so we are delighted you were able to make it.

Without objection, all of the written statements and statements of everyone on the panel will be made part of the record. You will each be recognized for a five-minute summary of your testimony. The lights on the boxes at the ends of the table will indicate—a green light means that you have five minutes, a yellow light means please summarize because the red light will come on, and that means that is time to stop. If you haven't summarized prior to then, please do so quickly and end your testimony.

And we begin with you, Ms. Haar. Welcome.

STATEMENT OF ANA MARIA FERNANDEZ HAAR, CHAIR, NEW AMERICA ALLIANCE

Ms. HAAR. Thank you. Good morning. U.S. House Committee on Financial Services Chairman Michael Oxley, Ranking Member Barney Frank, Subcommittee Chairwoman Sue Kelly, Subcommittee Ranking Member Luis Gutierrez and members of the committee, on behalf of the New America Alliance, I thank you and commend your leadership on the opportunity to appear before you today to discuss Latinos in the financial services industry and access to capital.

Latinos currently exceed 44 million people in the United States—15 percent of the total, the largest minority in the country, the majority of the Western Hemisphere. Current purchasing power exceeds $700 billion, projected, as mentioned, to reach a trillion by 2010.

Indicators reveal increased participation of Latinos in all facets of American entrepreneurial activity and in the economy, except that they are very absent from leadership roles and executives roles on corporate boards, and in the finance industry they continue to lag. There are only 166 Fortune 1000 companies that include Latinos on their boards, and, furthermore, out of 10,314 positions, Latinos occupy only 202 seats—1.97 percent.

Collectively, the 73 Fortune 100 companies classified as commercial banks, securities firms and savings institutions, have 936 director seats, 793 executive positions. American Latinos occupy 28 of these board seats, 2.9 percent, and of the total of 793 executive positions, they occupy 20—2.5 percent.

In anticipation of this hearing, we conducted an informal survey of six major Wall Street investment banking firms to determine the level of Latino participation at executive level, managing director or partner. At not one of these firms did the American Latino participation represent more than 1 percent, and these are the same Wall Street firms that earn millions of dollars, annually managing and handling the pension funds and retirement savings of tens of millions of American Latinos.

In the institutional investment arena, Latino majority-owned companies continue to struggle to find adequate access to public and private pension funds in minority procurement programs, and major corporations have not typically included financial services. The New America Alliance inspired a hearing, and I must tell you that the State of Illinois, and Chicago in particular, has been exceptional in this area.

In October of 2003, the NAA published a white paper on American Latinos in financial services. These are the highlights. We looked at management consulting, asset management, private equity, brokerage segment as follows: One Latino owned an investment management consulting firm in the entire country. Those are the gatekeepers. In the asset management field, less than one-half of one-percent, $28.8 billion of the $7.2 trillion in U.S. institutional tax-exempt assets is managed by American Latinos.

Latino and private equity firms have aggregate capital available for investment of less than $500 million, translating to control of less than 0.2 percent of the private equity funds overall. The $1.1 trillion public pension fund arena in the top 6 America-Latino states total brokerage fees are roughly $1.5 billion for the management of assets. Latino participation is 0.005 percent at $7.5 million.

The challenges and barriers that limit the size and competitive advantage of Latino financial services identified in the white paper are: Limited access to decision makers; misperception that Latinos do not have the ability to invest and manage funds, and we have data contrary to that assumption; companies lack capital for expansion as they face their financing barriers; small company size in terms of asset under management limiting companies' ability to secure contracts; and a small number of new American Latinos entering the industry.

The four financial services sectors shared one common conclusion: Public hearings such as this one at the local, State and congressional levels, we believe, will place the national attention on the subject.

Venture Capital Kauffman Foundation report found that minority enterprise venture capital investment if profitable with an internal rate of return median of 9.5 percent and a mean of 23.9 versus 20 percent return indicated for the comparable benchmark for the market as a whole. The Milken Institute indicates that less than 4 percent of small business investment company private equity funds were invested in minority deals, and focusing on minority investment, firms have less than 3 percent of all venture capital funds under management.

Reliable data is part of our significant problem. We respectfully suggest that the Congressional Budget Office look into the possibility of additional research.

I would like to provide some recommendations, as Sarbanes-Oxley reform provided historic opportunities to incorporate diversity on corporate boards. Corporate leaders need to guide board appointments and hiring initiatives. Elected and appointed officials can promote corporate diversity through public statements and simply starting a meeting by asking one simple question of your corporate callers: What are you doing in diversity? What does your board look like? What does your management look like?

We appreciate the opportunity. We also suggest that expansion of the current Community Reinvestment Act to include insurance companies as well as private sector pension funds. They have made a significant difference.

We appreciate this opportunity. We at the New America Alliance are committed to increasing access to capital markets and financing for Latino businesses. We stand ready to collaborate with the U.S. House Committee on Financial Services, other government leaders, corporate America and minority community leaders in advancing our common goals of prosperity for all in this country. Thank you for this opportunity.

[The prepared statement of Ana Maria Fernandez Haar can be found on page 43 in the appendix.]

Chairwoman KELLY. Thank you very much.

We would like to hear from you now, Dr. Hammond.

STATEMENT OF THERESA HAMMOND, ASSOCIATE PROFESSOR OF ACCOUNTING, BOSTON COLLEGE

Ms. HAMMOND. Chair Kelly, Ranking Member Gutierrez, Chairman Oxley, and Ranking Member Frank, thank you for the opportunity to address the committee on the critical matter of the dearth of African-Americans in the Certified Public Accountancy profession.

I am going to talk about four major points. One is the importance of the CPA profession; the second is that African-Americans are vastly underrepresented in the CPA profession; the third is the role that the experience requirement has played historically in excluding African-Americans from the profession; and the fourth is the lack of transparency in providing information on how many African-Americans there are at the various firms.

Before the Enron debacle of a couple years ago, very few people paid any attention whatsoever to the CPA profession, but now I think people understand that public accountants are supposed to represent the public. As Mr. Frank said earlier, how can the public accountancy profession represent the public when 12 percent of the public is African-American but fewer than 1 percent of CPAs are African-American? Ninety-eight point seven percent of partners in the major CPA firms are white.

In addition to not representing the public, also this is denying African-Americans well-paying jobs and also access to capital. Most black-owned firms work closely with African-American businesses and help them develop access to capital and manage their capital effectively. So the lack of African-American CPAs has a widespread effect on the economy.

As I said earlier, fewer than 1 percent of CPAs are African-American, only one in 1,000 partners in the major firms are African-American, and this is despite the fact that in the past 20 years 6 to 8 percent of accounting graduates have been African-American. There are plenty of accounting graduates who are black, and yet there are very few black accountants in the firms.

This contrasts poorly with the number of doctors who are black, which is 4.2 percent, and 2.7 percent of lawyers. Both of those professions require significant additional education above CPAs, and yet they both have much higher percentages of African-Americans than do CPAs.

I wrote a book on the history of African-American CPAs, because I was trying to understand why this underrepresentation was so severe, and I interviewed 40 of the first 100 CPAs in the country. It reminds me of Mr. Gutierrez saying that one of his friends had never met a stockbroker. Well, until the late 1960s no major white CPA firm would hire an African-American. Therefore, young African-Americans today are less likely to have an aunt or an uncle or grandparent or parents who are CPAs. And it has an effect on mentoring as well as on role modeling for young people today.

Two of the people I interviewed were Bernadine Gines and Tab Tillman. In 1947, Bernadine Gines graduated from NYU with an MBA, an exceptional accomplishment for any woman, and especially for an African-American woman. Still she lived in Harlem and she sent out job applications to every CPA firm she had heard of, and she didn't get any interviews.

Subsequently, she moved to Queens, and now that her neighborhood didn't betray her race, she got many, many interviews. But when she would show up for interviews, people would say, "I am sorry, we cannot hire African-Americans." In fact, the first interview she applied to, on the first interview she went on, the interviewer said, "I can't possibly hire you, but could you please help me find a maid?"

This woman went on to become the first African-American female CPA in the State of New York because a small Jewish-owned firm hired her, and she celebrates her 50th anniversary as a CPA this year.

Tab Tillman similarly moved from the South, he had been born in North Carolina, and moved to Los Angeles in the hope of getting more opportunity. He really wanted to become a CPA. He became the first black MBA graduate of Syracuse University in 1949 and still he couldn't get job interviews once people found out that he was African-American. He applied to every single CPA firm in the city of Los Angeles and finally found a small, again, Jewish-owned, firm to hire him.

He worked there for one year and in the time that he was working there the managing partner of the firm was away serving in the Korean War. When that managing partner came back to Los Angeles, to his firm, and found Tab working there, he fired him immediately because he said it wouldn't look good to have African-Americans work in the office.

To become a CPA, you have to work for a CPA. Both Tab Tillman and Bernadine Gines were denied that opportunity for, in Tab's case decades after he first attempted to become a CPA.

Fortunately, the conditions changed in the late 1960s. The National Association of Black Accountants was formed in 1969, and the AICPA began tracking data. That is the American Institute of the Certified Public Accountants. They began tracking data that showed that there was a big increase in the number of black CPAs. However, that number only increased from 1976 to 1981. During the 1980s, the number of African-Americans hired by the firms declined precipitously, and beginning in 1990, the AICPA discontinued the survey.

As Ms. Fernandez Haar pointed out, having this kind of information is critically important to understanding the diversity of the profession. And so we call for more—I would like to see Congress and the SEC call for more transparency on the part of the firms. Just as you said when you interview or when you speak with firms you should ask how many African-Americans or Latinos they have on their board of directors, it would be important to stress the importance of the diversity of the CPA profession as well, and ask them how many partners they have who are African-American and Latino.

The National Association——

Chairwoman KELLY. Ms. Hammond, if you could summarize your testimony, please.

Ms. HAMMOND. Sure. The National Association of Black Accountants is currently embarking on a project to try to get firm-specific data so that we can track this better, but this is a significant first step just to have this hearing and to raise awareness and attention to this issue. So I thank you.

[The prepared statement of Theresa A. Hammond can be found on page 53 in the appendix.]

Chairwoman KELLY. Thank you very much for your testimony.

Let me explain what has just happened here, because it is rather interesting. When I went to Iraq, I met in Mosul with a group of women who were anxious to be part of the new democratic Iraq. One of the women that we met with is following Mrs. Brown-Waite today. They have come here. As a result of our meeting, four of the women that we met with have been elected as women participants. They are members of the city council of Iraq. For the first time, there are women on the city council in Iraq, and we are very——

[Applause.]

Chairwoman KELLY. Would you stand up? The woman with her is the interpreter.

[Applause.]

Chairwoman KELLY. We turn now to you, Mr. Kennedy.

STATEMENT OF MICHAEL D. KENNEDY, MANAGER OF DIVERSITY PROGRAM AND FINANCIAL SERVICES SECTOR EXECUTIVE, KORN/FERRY INTERNATIONAL

Mr. KENNEDY. Chairwoman Kelly, Congressman Gutierrez, Ranking Member Frank, Congressman Scott, distinguished members of the Subcommittee on Oversight and Investigations, good morning. I have been invited today to discuss the status of diversity in the financial services industry. As Chairwoman Kelly has already indicated, I am a member of the financial services as well as the diversity practice at Korn/Ferry International based out of the Atlanta office.

Our diversity practice was started in 1998 to assist our clients in addressing their diversity recruiting needs. Today, I come before you to share with you from a recruiter's perspective what I see in the financial services world.

The story in financial services today is really a story of good news and not so good news. First and foremost, there has been considerable progress in the industry over the past 10 years. One of the major changes that we have seen has just been in the attitude. Historically, diversity was something that was just the right thing to do for corporate America, and many firms viewed it from an altruistic viewpoint. Today that view has changed. Senior management is looking at diversity from a business imperative and recognize the ability to see the bottom line benefiting from diversity.

Corporate diversity initiatives have become very significant as well. As you indicated in your opening statement, most major financial services firms today have developed extensive corporate diversity programs. In many cases, chief diversity officers have been appointed who report directly into the CEO's position. What this shows is that there is more or less of a commitment to financial services diversity by senior management.

Recruiting has been fairly substantial over the last 10 years in terms of identifying talented people of color and women and bringing them into the financial services industry. However, recently, corporations have decided that they need to focus more on the retention side. What is driving that is in the recent economic downturn we have seen a disproportionate number of talented women and people of color displaced from the workforce in middle management ranks.

As a result, this puts more pressure on corporations, financial services firms, to develop career development tracks for their employees to allow them to be promoted up through their organization. So although there is positive momentum in the financial services segment, there is still a great deal of work that needs to be done and significant challenges confronting the industry.

Women and people of color are not represented on a consistent basis throughout the financial services industry. For example, in looking at the asset management sector, what we see from a recruiting perspective is that there are still very few women and people of color in roles such as equity analysts and portfolio managers. And we also see that there tends to be more representation in the government and the municipal security segments as opposed to corporate, high-yield and other areas. In those latter areas, the compensation packages tend to be higher.

In looking at investment banking as another example, again, women and people of color tend to be in either the municipal finance or the public finance or similar kinds of areas and are underrepresented in mergers and acquisition, corporate finance, areas that again tend to have higher compensation attached to them.

Another example is private equity and venture capital, which is what we are here to discuss today. What we see is that minorities and women tend to be employed in minority-focused and female-focused private equity funds or are working with funds that are affiliated with banks, foundations or endowments. In looking at the private partnership structure, which is the vast bulk of the private equity community, we see scant representation of minorities and women.

Korn/Ferry recently developed a study that gauged the effectiveness of corporate diversity initiatives. You have a copy of it, and it is entitled, "Best Practices for Diversity." In this study, we surveyed senior executives, corporate diversity heads and senior minority executives, and as you can imagine, there was a wide variance in discrepancies among the effectiveness with senior executives believing that these programs are very effective, where minority executives believe that these programs are not as successful as they should be.

One other example and trend in looking at the industry today is that most of the corporate diversity initiatives are in the larger global financial services firms. When you look at the regional firms, smaller financial services firms, what you typically see is that there is not as much diversity. It is being driven by the human resources area.

So with that said, the good news is that the industry has made some considerable progress, but the not so good news is that the financial services industry still has a long way to go before diversity is embraced consistently throughout.

[The prepared statement of Michael D. Kennedy can be found on page 71 in the appendix.]

Chairwoman KELLY. Thank you very much, Mr. Kennedy.
Mr. Lackritz?

STATEMENT OF MARC LACKRITZ, PRESIDENT, SECURITIES INDUSTRY ASSOCIATION

Mr. LACKRITZ. Thank you, Madam Chairwoman. Madam Chair and Ranking Member Gutierrez and members of the subcommittee, I am Marc Lackritz, president of the Securities Industry Association, and I appreciate very much the opportunity to testify today about SIA's and our member firms' efforts to encourage diversity within the securities industry and the U.S. capital markets. We commend the subcommittee for recognizing how important this topic is to the future of our economy, our markets, our industry and our investors.

SIA and the securities industry are fully committed to creating a non-discriminatory workplace and an industry where anyone and everyone can succeed on his or her merits. I am proud of the progress our firms have made over the last decade to develop diversity initiatives in the workplace and to improve their marketing to diverse customers. While our efforts are clearly beginning to pay off, we recognize that more work needs to be done.

The face of America is changing rapidly. By the middle of this century, about half of all Americans will be minorities. African-Americans, Asian-Americans, Hispanic-Americans and women are some of the groups that will make the market increasingly diverse. These changing demographic trends deliver a clear message: Securities firms must establish and support diversity programs in the workplace and in the marketplace if they are to succeed.

About 10 years ago, SIA formed a Diversity Committee of senior-level executives to increase industry understanding of the strong business case for building programs to develop multicultural workforces and client bases. The committee's objective is to help shape an industry that is open to everyone, where employees are limited only by their own potential, clients' unique needs are actively served, and shareholders receive value for their investment.

After first producing a business case for diversity and then creating a resource guide for identifying, recruiting, training and retaining a diverse workforce, the committee undertook a benchmarking survey tracking industry employment of minorities and women over time. The survey's purpose was to help our industry keep tabs on our progress over time in achieving an increasingly diverse workforce and customer base.

Importantly, our industry experienced one of its most significant recessions ever during the time period the survey covers. Given the difficult market conditions and severe cost-cutting measures that our firms undertook, our results are even more remarkable. For example, the percentage of women and minorities in key securities industry management positions is increasing, especially in large firms, which have all had diversity initiatives in place since at least 2001.

All of the large firms have diversity training included in their employee orientation programs, as compared with 89 percent in 2001. And 92 percent of all our large firms responding had formal mentoring programs in place, up from 78 percent in 2001. I might add that many of our large firms also have plans to add and expand their diversity efforts worldwide.

Similarly, all our mid-size firms have a diversity initiative as well, and many of them are engaged in as wide a range of diversity activities as the large firms. Four out of five mid-sized firms have a management-level person dedicated to diversity, and the percentage of mid-size firms incorporating diversity training, employee networks and formal mentoring programs more than doubled from 2001 to 2003. Almost all of our large member firms are dedicated to helping minority kids receive scholarships, summer internships and other opportunities for advancement.

Although our survey does not catalogue every initiative, we know that they are extensive and pervasive. The many positive changes that have occurred are a tribute to the efforts started more than a decade ago, and yet some of the trends indicated, and we have heard already this morning, show that we still need to make further inroads and improvements. We are firmly committed to ensuring that equal opportunity is a hallmark for all our firms' employment.

As we gain experience with diversity programs, we found that there are several elements in common that contribute to a firm's success. They include support, interest and active engagement from senior management; encouragement of a corporate culture that emphasizes diversity and provides training and education to employees to be sensitive and supportive of this goal; networking to identify, recruit, hire and retain women and people of color; and innovative programs that reach out to communities to hire people and provide support, including mentoring throughout a new employee's first few years.

Finally, targeting recruiting efforts and partnerships with established organizations that support women and minorities. Programs involving both mentoring and networking of new women or minority employees have been very successful in attracting, training and retaining more women and minority employees.

We have also made a lot of progress on the educational front with the development of a comprehensive web site, quarterly teleconference calls for human resources and diversity managers, inclusion of diversity in the core curriculum of our professional education programs and partnerships with organizations to support minorities and women.

As I noted earlier, but I want to reemphasize in conclusion, SIA and our member firms are fully committed to creating a non-discriminatory workplace where all employees can succeed on their merits. We have come far, but we still have a way to go. We welcome your subcommittee's support and input on how we can further improve our diversity efforts. Thank you very much.

[The prepared statement of Marc Lackritz can be found on page 75 in the appendix.]

Chairwoman KELLY. Thank you very much, Mr. Lackritz.

Ms. Hanley?

STATEMENT OF JOANNE HANLEY, PRESIDENT, WOMEN IN HOUSING AND FINANCE, INC.

Ms. HANLEY. Thank you Chairwoman Kelly, Ranking Member Gutierrez and members of the subcommittee. I am Joanne Hanley, president of Women in Housing and Finance. We appreciate the opportunity to talk about this important topic today. I note for the record that I am testifying today solely in my capacity as president of Women in Housing and Finance.

Women in Housing and Finance is an example of an organization that was created because of a lack of diversity in the industry, principally, the lack of women. In 1979, the "old boy network" simply closed women out of important meetings. Therefore, a small nucleus of women in the housing field recognized the need for women to join forces, to share policy views as well as tips for boosting each other's career success.

This group was so small that they were able to meet for lunch around one table in a restaurant in Chinatown. They soon attracted women from financial services as well as housing and rapidly grew to almost 100 members.

We then struggled with 2 decisions: Whether to grow beyond 100 members and whether to include men. Both of these questions were answered in the affirmative, as Women in Housing and Finance elected to increase its strength by becoming more diverse. In the 25 years since those first lunches, we have grown to an organization of over 700 women and men, representing 260 organizations in both the public and private sectors. Current members include heads of financial regulatory agencies and the president of a major financial services trade association.

The organization has grown to be regarded as a premier forum for national policy leaders to address key policy issues. We carry out our mission by offering substantive educational programs on the current issues facing housing and financial services, usually around the lunch hour to address our busy schedules.

As Women in Housing and Finance celebrates our 25th anniversary this year, let me talk about two of our relatively new initiatives. Beginning in 2002, our Professional Development Committee created a leadership training program based on two principles: women learn differently, and women lead differently. We offer a range of programs designed to prepare our members for advancement into executive-level positions. Further details about our leadership programs are provided in my written statement.

Secondly, our members have proactively contributed to the Washington community, to our related entity, the Women in Housing and Finance Foundation. A centerpiece of these efforts is financial literacy programs that the foundation offers to low-income women and their families in the D.C. metropolitan area.

In addition to funding these activities, our members have actually taught some of the financial literacy classes. The foundation has also provided grants to 14 local groups, including Northwest Church Family Network, Hannah's House and the Women's Center.

With the success of both Women in Housing and Finance as an organization and of its members in their respective careers, the question remains as to whether there is still a place for an organization that focuses on the success of women in the fields of housing and finance. Our leadership met earlier this year in a series of strategic planning sessions and debated this issue. The result was a reaffirmation of the focus on women's success as a key element of our organization.

In summary, it is significant to note that the organization represents a solution designed by women, for women, based on our evolving needs. Some common themes emerge from a review of our 25 past years. Our members want the same access to policy makers as other groups have. Moreover, we don't just want to network with the policy makers, we want to create career paths that enable us to become those policy makers.

We saw the benefit in expanding our membership ranks to include men. We simply found that having a diverse membership furthered our individual goals of advancing in our profession. Currently, one-third of our membership is men, and one-third of our board is men.

Our members are willing to put in extra effort to acquire the skills needed in these executive-level positions, and hence our emphasis on leadership training. Finally, we want to use our personal and financial resources to give back to the community, especially to women needing assistance with housing and finance issues.

Much progress has been made; however, women continue to perceive the need for continued education and skill-building to ensure their inclusion at the highest levels in the industry.

[The prepared statement of Joanne Hanley can be found on page 63 in the appendix.]

Chairwoman KELLY. Ms. Hanley, could you please summarize?

Ms. HANLEY. Yes. This is why our mission statement emphasizes that Women in Housing and Finance promotes women through professional enrichment and leadership enhancement. Thank you.

Chairwoman KELLY. Thank you.

Mr. Padron?

Mr. PADRON. Good morning, Chairwoman Kelly——

Chairwoman KELLY. Mr. Padron, push the button in the front.

Mr. PADRON. Sorry.

Chairwoman KELLY. Yes. Thank you.

STATEMENT OF HON. LORENZO PADRON, COMMISSIONER, OFFICE OF BANKS AND REAL ESTATE, STATE OF ILLINOIS

Mr. PADRON. Good morning, Chairman Kelly, Congressman Luis Gutierrez and members of the committee. I am Lorenzo Padron, commissioner of the Illinois Office of Bank and Real Estate. I am here today as a witness at this hearing to present the committee a report on key experiences as an Hispanic professional banker who has spent 25 years in the banking industry. I would also like to present my personal perspective on the progress made by the banking industry in its efforts to promote racial, ethnic and gender diversity in senior management and board membership. We commend you on this very important hearing.

I established my banking career as a management trainee in 1977 at the First National Bank of Chicago. Before my appointment by Governor Blagojevich, I was the senior vice president and board member of Metropolitan Bank and Trust in Chicago. During my early years of employment at First Chicago, it became evident to me that I was just one of two Hispanics in the domestic lending area of the bank, and all the senior management positions were held by a single group—white males.

The 1982 outcome of the class action suit filed against Harris Bank by its female employees charged in discrimination in promotion and compensation woke up the First National Bank of Chicago's senior management. Management initiated an internal analysis of its labor force, developed affirmative action goals and plans and an education and sensitivity training program for its senior officers and managers. It also initiated a public relations strategy directed to enhance the bank's image in the marketplace.

As a result of these diversity initiatives, a few minority males were promoted, but the bulk of the beneficiaries of these efforts were white females. To this day, the bank lacks Hispanics in amongst its senior management in its lending area, in its board of directors and in other positions of leadership.

A comprehensive review of Chicago's banking industry reveals that the employment of Hispanic senior lenders by the five largest financial institutions have increased significantly during the past five years as compared to any other period in Illinois history. In fact, two of Chicago's largest banks have formed teams of lending officers dedicated almost exclusively to servicing the growing Hispanic business market. However, senior Hispanic officers in leading management positions, CEOs and senior executives, and board directorships are absent from these large Illinois banks.

The major gains in leading management positions for Hispanics employed by the top tier banks are in the areas of operations, business development and diversity recruitment rather than management, policy making and activities central to the banks' profitability, which have changed over time.

While the banking industry consolidation and competition from out-of-State banks have depleted the group of large banks headquartered in Illinois, so have these trends reduced the opportunities for minority participation in executive management in Illinois at these large banks, now based in other States. Non-Illinois large banks with significant operations in Illinois present the same characteristics as the Illinois-based large banks, except for Banco Popular whose CEO and a significant number of the leading management positions are held by Hispanics.

A somewhat different picture is observed in the community banking segment. These are banks with total assets between $500 million and $2 billion, where Hispanic senior lending officers occupy some leading management positions. Even in this sector there are no CEOs or Presidents, but there are approximately 12 Hispanic board members in the top 6 banks.

One of the variables explaining the absence of Hispanics in leading management positions in the banking industry in Illinois relates to demographics. It was only during the past 2 decades that the Hispanic population in Illinois has experienced significant growth, which is reflected in an increasing number of junior level managers and officers in the banking industry.

An analysis of minority-owned banks in Illinois, in the Illinois banking industry, shows that the group of banks owned by Hispanics and African-Americans remain in the category of endangered species. Increased competition from a greater number of out-of-State banks entering the Illinois market and the consolidation of the banking industry reduced the number of local Hispanic-owned financial institutions from three to one. Banco Popular with assets in Illinois exceeding $3.5 billion is considered an out-of-State bank.

There were three locally owned African-American financial institutions operating in Chicago, in Illinois at the beginning of this year. One of these three was sold in the first quarter of 2004 due to poor performance, one is currently in negotiations to be sold, and the third has been struggling to survive. The eight locally owned Asian-American banks operating in the State have been able to maintain their market share in spite of serious performance challenges. The stability of these banks has been supported by the strong loyalty of their core customer base.

In summary, the restrictive nature of Illinois banking laws produced a banking system that was unprepared to compete with banks operating in States with unrestricted bank branching, leading to the acquisition of the largest Chicago banks by out-of-State banks. The liberalization of the Illinois banking laws significantly reduced the number of banks operating in the State, and the consolidation of the banking industry is expected to further reduce the number of banks, including minority-owned financial institutions in Illinois.

The progress made by the banking industry in Illinois in its efforts to promote racial, ethnic and gender diversity in senior management and on Boards of Directors have been disappointingly slow.

Last week, headlines on Morgan Stanley's settlement agreement on Monday, and yesterday headlines on First American Bank in Chicago on its settlement agreement is really a sad reminder to us all that there is yet a great deal of work to do in this area.

Today's editorial page of Chicago Sun Times has an article under the heading, "Time for the Wall Street to Get Bullish on Diversity." The article states that in terms of equality it has been a bear market, and Wall Street must come up with a better deal. The article starts with a quote from a former employee of Merrill Lynch quoted in the New York Times that reads, "They have a specific view of what a successful banker or manager will look, and it is not usually women, blacks or Hispanics.

I am prepared to answer any questions you may have. Thank you.

[The prepared statement of Hon. Lorenzo Padron can be found on page 82 in the appendix.]

Chairwoman KELLY. Thank you very much, Mr. Padron.

Some of our panelists have noted that a lack of access to capital financing is the primary barrier to the growth of minority-owned enterprises outside of traditional service-oriented endeavors. What do you think can be done to improve access to capital to all individuals? And I am throwing this out to the entire panel. I would like your answers quickly, because I only have five minutes like everybody else to ask this question. So, please.

Ms. HAAR. Your greatest resources are in the pension funds and the pension plans and their gatekeepers. Asking who the gatekeepers are, when minorities may participate, who the board members are, who the investment committee decision makers are, because some of these funds, even those earmarked for minorities, are not getting funds that then are the engine for business. So just asking the question who is making the investment decision and how many minority funds you have invested. The return on investment, by the way, is excellent.

Chairwoman KELLY. Thank you. I am just going to skip down, Mr. Lackritz?

Mr. LACKRITZ. Thank you, Madam Chair. I think that most entrepreneurs go through a series of—they go through a cycle where they get financing initially from their own savings and those of friends. They then get bigger and get bank financing. They get maybe a little bigger and get venture capital financing. And if they are very successful, they might get in the public capital markets. I think at every step along the way we need to pay attention to who is making those decisions and make a conscious effort to really expand those programs.

Chairwoman KELLY. Mr. Kennedy, do you have something you want to say on that?

Mr. KENNEDY. Yes, Madam Chairperson.

Chairwoman KELLY. Please push that button so we can hear you.

Mr. KENNEDY. Can you hear me now?

Chairwoman KELLY. Yes.

Mr. KENNEDY. Yes. What I was going to contribute is that I think we need to take a look at overhauling or at least revising some of the guidelines for the SBA, particularly pertaining to the small business investment company programs, because I am aware that historically that has been an avenue where minority funds have been started to get some equity capital out into the community. But I think more needs to be done there with that program, and I think it needs to be overhauled.

Chairwoman KELLY. Thank you. You and I should talk. I sit on the Small Business Committee as well, and we are trying to do something about that.

Ms. Hanley?

Ms. HANLEY. I agree with——

Chairwoman KELLY. I am sorry, Ms. Hammond?

Ms. HAMMOND. I am sorry. I agree with Mr. Kennedy. It is a big issue among black CPAs who work closely with small black-owned businesses as the SBA program has experienced such severe cutbacks that it is very difficult to qualify for this type of financing. When this financing was more available in the late 70s and the 1980s, black businesses were growing much more quickly. Now they are shrinking, and this is an important area to be addressed.

Chairwoman KELLY. I think we may need to talk more about that.

Ms. Hanley?

Ms. HANLEY. I don't really think I have anything to add. I think we have probably touched on all the themes. We, as an organization, would be looking to do what we could do via our foundation as well.

Chairwoman KELLY. Thank you.

Mr. Padron?

Mr. PADRON. Well, one of the problems that really limits our ability of capital to minority companies is the fact of employment of minority and women officers has been absent to the banking industry. And, consequently, either because of cultural conditioning or because of lack of interest, the capacity or the inclination of non-minority and women loan officers really limits their interest in this market.

I personally can tell you that I have spent a considerable amount of time lending to a great number of minority companies in Illinois, and the few minority and African-American and women loan officers in the lending area actually with authority to lend capital is where the deficit is. We have representation in operations, in diversity recruitment and so on and so forth, but in the critical area of lending, that is where we need to emphasize that is where the decision making is done.

Chairwoman KELLY. Thank you very much. Thank you.

The recent harassment scandals on Wall Street have been very publicized and Mr. Padron talked about that. There is still a lot of progress that needs to be made. In an article in the New York Times recently, one worker said, "There are a lot of women I know who have left the Street with $4, $5, $6 million in their pockets who say, 'I am never going to reach the top, so I will go do something else.'"

As a matter of fact, a woman in my hometown started something called, "85 Broads," because 85 Broads is the address of Goldman Sachs, and at that point—this is quite a number of years ago—the women could only reach a certain level. That corporate environment has now changed, but this is a brain drain. It is a brain drain when we don't use everyone in America who wants to be in on this and has something to give. Very clearly, these are successful women, but they are limited in terms of their advancement.

I want to know what you all think—and let's just start down here with Mr. Padron—what do you think it is going to take to break through these barriers?

Mr. PADRON. It is a real challenge to break through these barriers. Some people like in my capacity when I was at First National Bank of Chicago, I realized, and the rest of the minorities and women in the Commercial Loan Department realized, that the glass ceiling was just too thick to break, and some of us decided to go into the International Banking Department where promotion and the rate of promotions were faster. And from there I moved to Banco Popular where I knew that there was a great deal of sensitivity to promotion and compensation.

I think that it is a serious challenge. I think that we need to continue to regulate with stricter interpretation of the laws, and also I think that we need to review the legislation to see what additional areas we need to tighten up.

Chairwoman KELLY. Let's go on down the line.

Ms. HANLEY. I think this is a perfect question for our organization. It is why we continue to exist. We have internally debated as an organization, with an increase of men in our membership, the need for women's organizations. We absolutely believe the barriers continue to exist, and we are looking to enhance our professional development training, get more women on corporate boards with the appropriate training and get them to break through the upper ranks.

Chairwoman KELLY. Thank you.

Mr. Lackritz, I know that you at SIA have really tried to encourage these firms to move forward and become more diverse, and I am very happy to hear that. I would like to know—and I know that on Wall Street the woman that I spoke of is back on Wall Street, so that I know that the corporate climate there has changed a great deal. Are there specific things that you have actually worked—specific companies you have actually worked with to try to put in place some more sensitivity? Have you run courses or anything?

Mr. LACKRITZ. Yes, Madam Chair. Our committee basically exists not so much to work with companies but to share the best practices of what other firms are doing. And so it is a great information-sharing network that has evolved.

What we have also done is we have established a leadership within the association for the most innovative programs that firms are doing in this area, and the first two winners, number one, was Edward Jones a couple years ago, and then last year was Quick and Riley, and they have very unique programs that are both replicative and have been very successful.

In the case of Quick and Riley, for example, they had, I think it was called, a Financial Consultant Advisory Program where they went out specifically to minority areas and went after specific underrepresented groups and then provided specific training programs for them and have really focused on the retention.

The firms that are most successful have mentoring programs in place so that women and minorities have mentors within the firms as they start up, and they also create networking groups within the firms of these new employees so that they can get some reinforcement. And I think that combination—it is making a difference.

I also think the role model of women in the industry makes a difference. I can tell you my cousin, Mickey Siebert, had a big challenge to break through the glass ceiling back in 1954, 1953 when she became the first woman to own a seat on the New York Stock Exchange. Since then we have had other path-breaking women, such as, for example, Sallie Krawcheck is now the CEO of Smith Barney; Alicia Shallot is the CEO of Bernstein, she sits on our board; Ellyn McColgan is the head of the brokerage, Fidelity, she also sits on our board. And I think those kinds of role models will help to replicate that success as well.

Chairwoman KELLY. Thank you. I am out of time. If we have enough time, I am going to ask this question again at the end and ask the three of you to address that as an answer.

But in the meantime, I am turning to Mr. Gutierrez.

Mr. GUTIERREZ. Thank you very much. Well, first of all, I would like to welcome you all again for being here, and I would like to acknowledge the presence in the audience of a woman pioneer, Marita Perez who heads Porta Lesa Asset Management and who knows in her own right how difficult it is and she is an asset manager. But it is hard to get the big corporations to give Latinas or Latinos or African-Americans the right to manage. But she manages very well, and I am happy she is here. She has taught me a lot about the difficulties that minorities encounter.

And I have a question. I would like to ask starting with Mr. Padron. What was the most important ingredient in your success?

Mr. PADRON. I think that the realization that I had to work twice as hard as the rest of the individuals in my group to make it. Also the attitude that this was not fair, the attitude that I had to overcome this issue, this problem and the recognition that I had to be in a capacity to fight and to advocate to change the laws.

Mr. GUTIERREZ. Thank you.

Mr. Kennedy, a simple question but you have a wealth of experience. How have you been so successful? What single thing?

Mr. KENNEDY. I would have to go back to education, and I was fortunate to have grown up in a family with professional parents. So as a result, they always emphasized the importance of education, and I have been blessed to have been able to attend one of the better boarding schools, colleges and graduate schools here in the United States, which provided me with the confidence to be able to go out and really do some things that I have wanted to do. So I think ultimately it gets back to education.

Mr. GUTIERREZ. Dr. Hammond?

Ms. HAMMOND. I think the key for all the African-Americans whom I interviewed for my book and also the African-Americans in the profession today, is mostly African-Americans helping African-Americans. As Mr. Padron said earlier and implied earlier, the programs that have been developed to increase diversity have actually mostly benefited white women in public accounting as well as in a lot of other industries. A lot of times firms talk about diversity and they say, “Well, 37 percent of our firm is diverse,” and it turns out that 36 percent of that is white women and 1 percent is people of color.

And so there has been a real lack—subsequent to the push for African-American inclusion that occurred in the late 1960s, early 1970s—there has been really a lack of attention to that issue. So what has happened is the National Association of Black Accountants and African-American-owned firms have filled those gaps.

In 1965, there were 100 CPAs in the country; 27 of them were in Illinois. And the main reason for that was because of Mary Washington, who you may know, has a CPA firm, Washington, Pittman and McKeever, in Chicago. She trained African-American CPAs who came from all over the country to come and work with her because they needed to work for a CPA to get a CPA, and no white firms would hire them.

Subsequent to that, the National Association of Black Accountants—and I have some colleagues from NABA behind me here, including the president of NABA—the National Association of Black Accountants took that leadership from the 70s through the 80s and 90s and has conventions and organizes opportunities to make it easy for the firms to recruit African-Americans, for African-American professionals to meet each other and be supportive, for African-Americans to meet the few black partners there are in these firms. That has really been where the leadership has come. And that is wonderful, but it is not enough.

Mr. GUTIERREZ. Ms. Fernandez?

Ms. HAAR. Thank you. Twenty-five years ago, I retired as the vice president of Corporate Lending and Corporate Finance in a bank called Flagship Banks, now SunTrust. Having been through the executive training program, first Latino of any gender in charge of the Credit Department, first corporate lender, I want to answer that question. No one gives the opportunity unless there is a benefit, but it has to come from the top. And these diversity programs that have been cited here, sometimes the diversity officer is the diversity. That is it. That is the program. It is not on the money-making end of the business, it is not in line to be promoted.

If I can tell you what happened is that I found a chairman who wanted to do it as an experiment. It wasn't even social consciousness, he just said, "I want to see if you can do it. You say you can do it. We will see." And handicapped by not having had the level of education, the MBA, I did have to acknowledge working twice as hard, but I said I am going to make it my business to make it work and not do the traditional route.

All these minority diversity programs, Madam Chairman, with all due respect, are put in areas, Human Resources, where they can trot them out, staff positions. The decision makers where the money flows are not people of color and are not usually women in commercial lending, because it makes us too uncomfortable. I left to start my own business because it got to be uncomfortable. I said I am not going to—as much as I want to fight this battle for other women, I am going to do something that is my way.

So we need you to ask those questions and have those changes made at the top. Otherwise we are going to hear about great programs that keep making more and more diversity personnel type executives. Thank you.

Mr. GUTIERREZ. You know, I thank all of you for those answers, and I just want to answer quickly if I were asked that question, you know what was the most significant thing for me? I grew up in a very Puerto Rican neighborhood of Chicago, so my parents, all their friends were Puerto Rican, the family event. Over at the factory, they spoke Spanish among one another. I didn't have a Latino teacher, I never saw a Latino police officer, I never a Latino—I mean I saw Latino cab drivers and dishwashers and factory workers, like my mom and dad.

And then what helped me, I think, to be successful is that my parents went back to Puerto Rico, and we went to this little town, and when I got there the doctor was Puerto Rican, the architect, the mayor, the senator. I turned around and I said—the principal of the schools, all the school teachers. And all of a sudden—and I had great parents, but I never saw that I could be all of these things.

And so it was very lucky and fortunate for me to see people in all those positions, because it said to me, "Look, you can do all of these things." Had I stayed in Chicago—and I just want to say to all the members of the committee, many young African-American, Latino youngsters it is all they see. They don't see it. They grow up with such a thirst and they don't see anything else other than the crime and the poverty that surrounds them each and every day.

And so you all are important—Mr. Kennedy, Ms. Fernandez, Lorenzo—all of you are very, very important, because you are all role models for the young people, and I thank you all for your wonderful testimony.

Chairwoman KELLY. I thank you.

We have been called for a series of votes, so we are going to take a—oh, I am sorry, do we have enough time—can we pick up Mr. Hensarling? Okay.

Mr. Hensarling, if you can make this just roll, we will do that.

Mr. HENSARLING. Thank you, Madam Chair, and I will attempt to be brief. One, I applaud holding this hearing in the first place, because I have observed it is very difficult in America to have an intelligent conversation about race relations and hiring practices. Given the history of racial prejudice in our Nation, it is an important topic that we take up.

Perhaps contrary to some members of the panel, I, myself, do not have interest in diversity as a goal in and of itself. I have a great interest in diversity as a means towards a goal, and that goal is to move us to a freer, more colorblind society. So where I see diversity and it represents an absence of racial prejudice, I tend to celebrate it. Where I see the existence of diversity and I believe it represents the triumph of color consciousness over equality of opportunity, I tend to be critical of it.

I believe that a properly structured diversity program can be very good in helping those who suffer from a legacy of prejudice to reach greater heights of opportunity, but I also know that there is a very thin and gray line between diversity, color consciousness and de facto quotas.

So I guess my first question is, Mr. Lackritz, can you tell me, in your opinion, what does a properly structured diversity program look like in the securities industry?

Mr. LACKRITZ. Well, I wanted to give you a very thoughtful response, so I will try to be brief. The reality is that there are lots of different ways at this, and we have got a number of different programs that are finding success. I think the most important qualities are engagement of top management, and I can tell you that in our large firms now diversity and openness and equality of opportunity have become one of the top two or three goals of almost every CEO of all of our large firms. So you need top-down engagement by the CEO.

You need a commitment culturally within the firm to both recruit and try to track new types of employees, whether they are women or people of color and an active aggressive effort to go out and get that. You need to have a mentoring program internally in the firm to help people succeed, as all of us have been mentored along the way by older people, and you need to have a method for the new employees to network among one another and get to know one another a bit to give each other support in a new environment where they may find it unusual or new. I think all of those components add up to a good program.

I also think that the main reason for engaging this is because you are going to be more successful from a business standpoint, and that is the reason to go after it. But that is why you do this and a way to reach customers in new ways.

Our market, like every market, is evolving very dramatically. You can just look at the different ways people buy securities. It is dramatically different from the way it was 10 years ago. Look at the number of people that are buying securities, that has changed. So you need to have flexibility, but I think that is the main focus. Sorry for the long answer.

Mr. HENSARLING. No, no, no. It is an important question. Speaking of questions, instead of asking five questions, I think I will ask two questions.

The second question I had is I have heard a number of statistics relating to the discrepancy between an ethnic population, or a racial population, in America and their representation in the upper management at various financial services industries. I am curious if there are any studies that the panelists might be aware of as what the disparities look like, assuming you can hold constant certain variables like income and education and two-parented families and such.

So I know that, unfortunately, racial prejudice is alive and well in the USA, but I wonder how much of that relates to what might be viewed as an earlier pattern of prejudice with unequal educational opportunities, perhaps unequal family environments and other variables.

Maybe we can just go left to right, and if somebody's aware of the study, if you could just educate me or cite that study for me, I would be appreciative.

Ms. Haar?

Ms. HAAR. Thank you. There is not such a study that I am aware of given the Hispanic—one of the recommendations that we made was perhaps that we could look at such information. However, we do know from an anecdotal basis, just looking at the top Hispanic 500 firms, that it does not seem to be compatible that directors are not available simply because we already have people who have succeeded, who have achieved and who actually sit on their own boards. So just from observation, it would not be logical.

Mr. HENSARLING. Ms. Hammond, are you aware of any such study?

Ms. HAMMOND. Well, from my own research, it is obvious that for the past 20 years 6 to 8 percent of accounting graduates, that is people who graduate with degrees in accounting, have been African-American. And despite the fact that it only takes about five years after graduation, typically, to become a CPA, still less than 1 percent of CPAs are African-American. That is a huge disparity controlled for graduation rates in college.

There is a study specifically about minority group members. There was a study in 1990 of all the students who had gotten offers from major public accounting firms. So they first found the students who had gotten offers, and then they went back to their GPAs and how many offers they got, and they found that the white males had the lowest GPAs and the highest number of job offers. And the minority women had the opposite.

Mr. HENSARLING. Thank you. Unfortunately, my time has expired.

Chairwoman KELLY. Ms. Hammond, I have to stop—I am sorry, I have to stop this. We have less than three minutes to make it to the floor to vote. We are going to take a recess. I would hope that we will be able to get back here by about ten after, quarter after 12. We have three votes and we have to get there now. Thank you.

[Recess.]

Chairwoman KELLY. [Presiding.] Thank you very much. Sorry we had the break but these things happen.

Now I am going to call on Mr. Davis.

Mr. DAVIS. Thank you, Madam Chairwoman. Let me welcome you all back. One of the reasons that I think you have a sense of this, after listening to comments from other members and the comments from yourselves earlier this morning, is that there are, I guess, two sets of concerns.

One of them is related to the absence of personnel, the absence of a larger presence and boards of directorate, that kind of thing, and the concern, as I would define it, is that we aren't making the most of the talent pool that we have in this country, that we have a talent pool that is dryer and shallower than it should be. And a lot of the other members have talked pretty eloquently about that.

The second set of concerns is that the absence of African-Americans or Latinos has had the effect of keeping a certain viewpoint or a certain perspective out of the board room, if you will.

Let me follow up, if I can, on the second set of concerns. While I know that it is not quite the scope of the panel, I want to talk for a minute about the CRA issue. I am not up to date on the national statistics, but I think we would all agree that for whatever reason there has been a lag in compliance with CRA and that we simply have not gotten what we wanted to out of CRA when it was passed. And I would surmise that that is one of the consequences of not having more minorities on board.

Do all of you agree with that, by the way, that the absence of minorities and minority representation in the hierarchy of banks has some spillover in CRA compliance? Is there agreement on that? Okay. All right. As we say in the courtroom, let the record reflect that all your heads are nodding.

What can this panel do—we haven't had a hearing on CRA this year. Hopefully we will have one in the next month or next session. What guidance would you give us as policy makers about two things. What can we do to make CRA more than just a promissory note, because right now it strikes me that it is a promissory note, and it is not a whole lot more binding or more powerful than that? What can we do to make CRA more powerful? And, second—well, let me get your answer on that, first of all, from any combination of you all.

Ms. HAAR. I think it is really important to say that although it might have flaws in not living up to its total potential, that it has been extraordinary. I think that in this particular case doing a better job than what we have, but when you look at it, from 1997 to 2001, $1.5 trillion in loans investment and service to minority and low-moderate income communities went through CRA agreement. That is a lot of progress.

I would venture to say that tightening the compliance and perhaps expanding it to the areas that the chairwoman had already commented on earlier will perhaps be the best people, are not management, for example, are not so willing to change unless it is mandated in a way that becomes really measurable.

Mr. DAVIS. Any other perspectives on that?

Mr. KENNEDY. Yes. I have one perspective. I would suggest that it would be beneficial to expand or at least change CRA to an extent to incorporate incentives for private equity funds to be raised for minority firms, women-focused investment firms. I know that has been one of the aspects of it over the past years, but my sense is that I have seen qualified minorities and women who have tried to raise private equity or venture capital funds go to banks, and since it is included as part of CRA, CRA has not been allocated to get those equity funds raised. So I think if there is a way we could do a better job sort of utilizing CRA to get some funding out in the equity capital side, it will help small and female-owned businesses down the road.

Mr. DAVIS. Let me ask a related question. My understanding of CRA is that banks receive a rating. They receive a rating for whether they have an outstanding record. Is that right, the banks receive a rating on the CRA performance? What are the criteria? What are the categories or the delineations? That is just an informational question from any one of you.

Mr. KENNEDY. I am not sure.

Mr. DAVIS. Okay. Well——

Mr. KENNEDY. They do see ratings, but I am not sure how it is structured.

Mr. DAVIS. All right. Right now what happens if a bank does not get an outstanding rating? Does anything happen?

Mr. PADRON. Well, one area which I think we have been lacking in enforcement of CRA, First American Bank of Chicago just announced yesterday in the Chicago newspapers that they have been found in non-compliance with the serious violation of CRA. I think that there have been a diversion in attention to CRA in the last couple of years, and I think that the issue comes to light mostly whenever a bank is in the process of acquiring another bank. And all of a sudden you see that they are starting to pay attention to it.

I have, as Congressman Gutierrez indicated, spent a great deal of time throughout my professional life working on a pro bono basis in the area of economic development and access to capita, and you see that my personal experience is that most of these banks, large banks, when you approach them to initiate or to join in special programs to facilitate access to capital to minority-and women-owned businesses, the attraction for them is just not there. But only at times when they are being bought or they are buying another institution, then they come around and invite you to participate in whatever programs they have.

So it is becoming an issue of enforcement, it is becoming an issue of having, as you indicated, the individuals from minority groups represented at a higher level of management, at the executive level of management or at the board level where they can influence these positions.

Mr. DAVIS. Madam Chairwoman, if I can just steal an additional 30 seconds just to make my point. What you have touched on is something I do think is fundamentally important, and it is something that I hope that this panel will examine. There is no question that CRA has been a positive event. It has expanded community development work on the part of our financial institutions.

But it is also very clear to me that exactly what this gentleman said is so, that if a bank chooses not to do its obligations under CRA, essentially the only thing that we do right now is to say, "Oh, that is bad that they don't do more." And I think something that we need to look at is what can be done to incentivize compliance? On the flip side of it, what are the sticks if you don't get more proactively engaged in this area?

And the final point that I would make is I do believe that a poor CRA rate has something to do with the absence of minority executives in prominent positions in the hierarchy. Thank you.

Thank you, Madam Chairwoman.

Chairwoman KELLY. Thank you very much.

Mr. Baca?

Mr. BACA. Thank you, Madam Chair. I appreciate the comments that were made by each of the panelists earlier when they were describing the need for minorities in diversity and having access. And we looked at access in terms of financing. We saw that yet there is a need for additional access, but at the same time it seems like we are cutting back the funding, and yet we have growth in minority, which also presents a problem in assuring that they do have.

And when we looked at and discussed the lack of diversity in each of the areas, not only from Hispanics, black CPAs or women in certain areas and then talked about the double standards that are applied there in terms of the numbers and statistics that are used, but as you look at and you talk about education as being one, you can have education and I believe that we do have educated Hispanics, we have educated, blacks, we have educated women.

And one of the things I was hoping that I would hear from you is that there needs to be sensitivity and there has to be a change, because without sensitivity and attitudes and behaviors, then you can draft a plan, any kind of a structure within any corporate America, but if that change and that sensitivity and that attitude and behavior isn't there, that is going to be hard to implement any kind of a plan that you have because you have the educational structure.

I want you to address that perspective, any one of the panelists, in terms of the need for the change in sensitivity, attitude and behavior in order to make sure that we do have people that have the ability to be not only on our corporate board but our executive board as well as to look at lending because, Kennedy, you talked about guidelines that needed to be done. Well, that is part of it too as well when you change those kind of guidelines. Can any of you then just sort of like touch base on it?

Ms. HAMMOND. I agree completely in the public accounting industry. I think that given the overwhelming white male dominance of the profession for so long, that even if the firms say that they would like to try to hire more African-Americans, they can't retain most African-Americans or Latinos who come to work for the firms.

And the main reason for that is the culture of the firms themselves. And the firms don't recognize the fact that they don't adapt to the culture of the people who—they are not making any adaptation whatsoever to anything but a white male culture. So they don't recognize that they are hanging out or taking staff members out golfing who are only other white males. They don't recognize that African-Americans may not know what certain terminology means because they don't have any familiarity with that from their family background.

And I think that one of the things that—besides the diversity training, I think that if there is such a white dominance in the management of these firms, that just an awareness of the experiences of others makes a huge difference. A lot of white people don't even know that only 30 years ago the same firms that they are working for refused to hire African-Americans, and so I think just an increase in awareness will help change the culture, just to know more about the backgrounds of other people instead of assuming that everyone has the same background as they do.

Mr. BACA. Any one of you? Marc? Kennedy?

Mr. KENNEDY. Yes. I would like to piggyback on what Dr. Hammond had to say. Earlier, I talked a lot about the corporate diversity programs that many of the major financial services firms have initiated, and I think when you really look at the more successful programs, those are at institutions where you have a CEO who is passionately committed to making diversity happen throughout his or her organization.

Mr. BACA. He is leading by example.

Mr. KENNEDY. Leading by example. And my sense is, at least from the recruiting work that I do in large financial services firms, that number is a very, very small number of CEOs who are passionately committed to making that happen. When you look at the business objectives every year for most of the major financial services——

Mr. BACA. So what I am hearing is he is got to change his attitude.

Mr. KENNEDY. Well, you are going to have to change the attitude of a lot of other CEOs and leaders in the financial services world to make sure that they are more sensitive before they can then drive diversity down through their organization.

Mr. BACA. Marc?

Mr. LACKRITZ. Yes. Thank you, Congressman. I guess I would just note that it is changing. Only yesterday the new management team at CS First Boston that just came into place, the new CEO sent out a memorandum to his entire staff saying that the objectives going forward for the firm were, first, to become a world class investment bank; secondly, to produce a talented, ethnically diverse workforce; and I forget what the third one was. But that objective coming from the new CEO of a major investment banking firm sets the tone and I think really places the importance upon driving that through the whole organization.

I can also tell you that all of our large firms have diversity sensitivity training as part of their employee orientation programs. That was not true 3 years ago, and it certainly wasn't true 10 or 15 years ago.

Mr. BACA. Right. But then the problem is the implementation process. You can have the training, but if you don't implement it, then it becomes difficult. And I think all of us have procedures, guidelines but the implementation process. Because there are qualified individuals. I am always tired of hearing people say that we don't have enough qualified individuals to be on the board of directors, we don't have enough CEOs, minorities or women to become the CEOs. But we do have them.

Mr. LACKRITZ. I think the point you are making is right. I think that procedures and processes and institutions are fine, but people do make the difference, and leadership really does matter.

Mr. BACA. Ms. Fernandez, were you going to——

Ms. HAAR. Congressman Baca, thank you, members of the committee. I would like to make a point about the focus. We talk about diversity, and we talk about what is right, but there is a business reason here. We have for the first time in months where we will reduce our trade deficit. The president has trade promotion authority. We have before us by 2005 the discussion of free trade area of the Americas.

What we are talking about here is part of the United States maintaining some sort of global competitiveness. If we are going to continue as the leading economy in the world, we have to become more globally competitive in these markets, and part of that is dealing with our own resources. Our minority communities here are our linkages to the rest of the Western Hemisphere and in terms of FTAA and, in essence, to the rest of the world.

I think it is an extraordinary resource, and we sometimes have to look at it also as this is good business. You need to do this because this is good business. It makes you a better company and part of a global competitiveness initiative too.

Mr. BACA. Thank you. Ms. Fernandez, could you please describe the relationship between——

Chairwoman KELLY. Mr. Baca? Mr. Baca? I am sorry, you are already two and a half minutes over your time. I will come back to you in a minute, but Mr. Scott has been waiting.

Mr. Scott?

Mr. SCOTT. Thank you very much, Ms. Kelly. First question to whoever may want to take this: What percentage of chief diversity officers in these firms report directly to the CEO?

Mr. LACKRITZ. I don't have an exact percentage for you. I know in some firms they do, and in other firms they report to the head of Human Resources who reports to the CEO. It varies. I can try and get a more specific number.

Mr. SCOTT. I mean could we, just generally, from you all's experience, would you say half of them, 10 percent of them, 20 percent, most of them?

Ms. HAAR. Very few.

Mr. SCOTT. Very few. Good. That is——

Mr. KENNEDY. I would probably estimate 20 to 25 percent, maybe one in 4, of the larger financial services firms.

Mr. SCOTT. And don't you think therein lies a part of the problem for the inaction in much of the things that you have said is the fact of that, and that that would be one recommendation and finding that we could come out of this hearing, that we find an inadequacy and so the record would reflect that this committee could be in the position of making that recommendation.

Certainly, as a member of this Financial Services Committee, I would certainly want to go on record as one of the areas in which we can improve in and should work towards is the fact that for diversity to be taken seriously, it has got to come from the top. And the person in charge of diversity should report directly to the CEO.

Now, with that in mind, Mr. Kennedy, without necessarily putting you on the spot, I would like to know do you report to the CEO at Korn/Ferry?

Mr. KENNEDY. Well, indirectly, I do. Obviously, we are a publicly traded company now. We went public in 1998. But prior to that we were a private partnership. So the way that we are structured, I report into a regional managing director who then in turn reports into the CEO of Korn/Ferry.

Mr. SCOTT. All right.

Mr. KENNEDY. But I am not head of our diversity practice. I am just one of the members of our diversity practice, but I tend to have a specialty within financial services.

Mr. SCOTT. Well, hopefully, after this hearing it gets to report back to C-SPAN and they might make that promotion for you.

[Laughter.]

I hope that positive comes out of this.

Now, Mr. Kennedy, you mentioned in your testimony you referred to scam representations, if I remember correctly, of minorities and women. Would you share with us what you mean by scam representations in diversity and describe one of those for us?

Mr. KENNEDY. Yes. What I meant was scant, S-C-A-N-T.

Mr. SCOTT. Oh, scant.

Mr. KENNEDY. Yes, scant.

Mr. SCOTT. Okay.

Mr. KENNEDY. Very little representation of minorities and women. And I think the point I was making there it gets to the private equity venture capital segment. When you look at the numbers of people of color and women who are in private partnership, private equity funds, there is scant representation. And the implications for that then are that since the majority of private equity funds are in this private partnership structure, then you have a whole group of people who, by and large, have been excluded from participating in the venture capital arena, at least most of the midsize and larger funds.

Mr. SCOTT. Okay. This question: I would think a purpose, a part of our purpose as the Financial Services Committee in this hearing is to receive input from you. And a part of that is to determine what, if anything, we in Congress can do or act upon. And with that in mind, I would like to give you all, those of you who may wish to ponder this question, the opportunity of sharing with this committee what do you think we in Congress can do to improve the picture of diversity in corporate America, in the financial services industry particularly, and access to capital? And not only what we can do through our bully pulpit, through persuasion but also through specific legislation and through Federal agencies.

Ms. HAAR. Congressman Scott, you made an excellent point about reporting to the CEO. Although I am not an expert in Sarbanes-Oxley, it is my understanding that the CEO now has to sign off on the financials as part of that. If an expansion of that included that he would have to sign off on his diversity mission, that would be an extraordinary thing. If it is a wish list, an expansion of CRA to include the pension funds and other areas, insurance companies in the financial services industry, that would be extraordinary.

And perhaps research—what would be the arm of the Congress that funds the research?

Chairwoman KELLY. That would be somebody like GAO.

Mr. SCOTT. General Accounting Office.

Chairwoman KELLY. The General Accounting Office. There are several places for us to go to get research like that.

Ms. HAAR. Part of the reason that we are not moving forward is that everyone has proprietary data and it is not really being shared. So none of us are really getting a picture of how bad it is. We know in the areas that we look at, but if you actually investigated and looked at the total picture in the country, it would be incredible.

Chairwoman KELLY. If the gentleman will yield for a moment.

Mr. SCOTT. Yes, go ahead.

Chairwoman KELLY. That is probably a fairly good idea. What if we asked GAO to put together this information and report back to us?

Mr. SCOTT. I think that would be excellent.

Chairwoman KELLY. Okay. Then so moved.

Ms. Fernandez Haar, you have actually accomplished what you wanted here, I hope.

Ms. HAAR. Thank you very much.

Chairwoman KELLY. Thank you.

Ms. HAMMOND. I would like to include the CPA firms in that and not just the financial services industry.

Chairwoman KELLY. So moved.

Ms. HAMMOND. Historically, the CPA firms have only responded to pressure from two different groups: Their clients or the SEC through Congress. And because they are supposed to be accountable to the public, Congress, I think, plays an important role in encouraging them to share this kind of information so that we can track and see who is doing well and who isn't and how we can do better.

Mr. SCOTT. Thank you.

Mr. Kennedy?

Mr. KENNEDY. And I actually have a couple of thoughts as well. First, as we may have talked about earlier, I think it would be beneficial to take another look at the SBA and the SBIC Program, specifically to revamp aspects of that to make it more attractive to place equity capital into minority and women-only businesses, and I think that would be one way.

The other thing would be to take a look at the public pension fund industry, and we didn't talk about it in my bio, but I am actually chairman of the board of the State of Georgia's Employees' Retirement Pension Fund. We have about $14 billion in assets under management, and partly what we do is that we actually work with some minority-owned asset management firms that do an outstanding job for us to help them grow.

So when I go to many of the national conferences of various public funds, there are very few people of color represented on boards there. We had the only African-American executive director running a public pension fund in the country in Georgia who just left a couple months ago.

So I think that would be one area that I would ask you to take another look at, because you are talking trillions and trillions of dollars, and, certainly, there must be a way to get some of the assets from the public pension fund into minority-owned and women-owned asset management firms, but it has to be done the right way. So it can't just be a handout, it has got to be done the right way.

Mr. SCOTT. Okay. Does anyone else want——

Chairwoman KELLY. If the gentleman will yield.

Mr. Kennedy, we have just added that to our list.

Mr. LACKRITZ. I don't have any specific legislative suggestions. I think your bully pulpit, your shining a spotlight on the issue continues to push us as a group, as an industry to continue to do better. I don't think now we need that push, but I think it is important to keep the spotlight on. I think sunshine is the best disinfectant, and I think from the standpoint of transparency, it has remarkable effects. So I really commend the chair and the subcommittee for holding this hearing.

Mr. SCOTT. Thank you.

Chairwoman KELLY. Mr. Scott, thank you.

Mr. SCOTT. Thank you.

Chairwoman KELLY. Mr. Baca, let us go back with you. With the indulgence, I am going to ask the panel first, you have been here with us for some time. This constitutes a second round of questioning, so I want to make that very clear. If you have to catch a plane, if there are other things that you need to do right at this moment, if you could indulge us so that Mr. Baca could finish this with his final question, I would be very grateful. Is that acceptable to you? Let it be seen as they are all shaking their heads. Thank you.

Mr. Baca, please.

Mr. BACA. Thank you very much, Madam Chair. Just a couple of questions.

One, Ms. Fernandez, could you please describe the relationship between the lack of Hispanic leadership on corporate boards and executive management teams and the flow of capital into the Hispanic community throughout the United States?

Ms. HAAR. Yes. In terms of corporate America, one of the things that happens is that the initiatives have already improved at the consumer level, so they are more than willing to advertise that industry has grown $3 billion and Spanish advertising, this is just corporate, to deliver the consumer business to the bottom line.

In the absence of senior executives or members of the board, the relationship does not grow to the next level, which is wealth creation. That means that, for example, in procurement, we have made progress, we can sell office supplies, but the financial services of the private funds and other high-end services, including accountants fees, for example, are not available.

The minority communities are not taken into account when investments are going to be made into new distribution centers or plans. So the entire wealth creation machinery does not work in a fair and equitable way.

Mr. BACA. What specific recommendations do you propose to members of this committee to enact to ensure economic empowerment to the Hispanic community, and what should be the consequences of hearing focused on and what legislative steps can we take?

Ms. HAAR. The one thing I want to do is express our extreme appreciation because the gentleman was right, your shining light on it, in and of itself, puts everyone on notice that it is an issue that is important and it is not going to go away. That is number one.

The other areas that we talked about, getting credible numbers, because the excuse oftentimes is we don't have the numbers, prove it. That is why we as an industry could not even grow in the media until there was media measurement. And coming from Congress, I think it is the most important thing. The minority community has only been recognized really, really as of the last census, and that is because it was the official U.S. government numbers, credible numbers saying how many of us and how diverse we were. So that is critical.

CRA, I think, has incredible potential, as we have mentioned earlier. And, for sure, the pension fund—we at the New America Alliance have a pension fund initiative. We have gone into State pension funds training the legislators, asking them and teaching them to ask the questions that we shared with you today: What is the composition of your board, what does your Investment Committee look like, how many investments have you made to minority companies? Those three questions, Congressman Baca and members of the committee, will be critical.

Mr. BACA. Thank you. One other question. In your white paper released last year, you reviewed that the asset management industry you identified fewer than 20 Latino asset managers in your survey. Only one Latino firm was identified in the top 100 asset managers. You have also suggested that public funds should be given specific guidelines that should facilitate the inclusion of Latino firms and asset teams. Which pension funds have a model out there that other funds can emulate?

Ms. HAAR. That is a difficult question, because in absolute numbers we can see that Calperse, for example, has done more than anyone, as an example, but yet the percentage is dismal in its comparison. The white paper has it in great detail, those four areas that we studied, but I do believe that training other legislators with the State fund or taking examples from you that could be applied under perhaps more of an umbrella guideline will be really critical.

Now, we have legal counsel and experts from an organization here who have a more specific focus than I do, and I am sure that they would be available to answer any questions.

Chairwoman KELLY. Thank you very much.

Thank you, Mr. Baca.

Mr. BACA. Madam Chair, can I have unanimous consent to put the white paper on record?

Chairwoman KELLY. By all means. So moved.
Mr. BACA. Thank you.
[The following information can be found on page 87 in the appendix.]
Chairwoman KELLY. Thank you very much. The chair notes that some members may have additional questions for this panel, and they may wish to submit those in writing. So without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and place their responses in the record.
I want to thank this panel, the witnesses today. You have indulged us longer than we expected, and for that we are very grateful. Thank you so much for your appearance today.
This hearing is adjourned.
[Whereupon, at 12:49 p.m., the subcommittee was adjourned.]

A P P E N D I X

July 15, 2004

Statement of Chairwoman Sue Kelly
Subcommittee on Oversight and Investigations
"Diversity in the Financial Services Industry and Access to Capital for Minority-Owned Businesses: Challenges and Opportunities"
July 15, 2004

This morning, the Subcommittee on Oversight and Investigations will examine the state of diversity in financial services, including access to capital for all businesses and communities. These issues are critically important to achieving full growth in our financial services sector and our overall economy.

A simple snapshot of our country's current employment composition displays some disparities among certain populations, particularly with regard to women and minorities. As a society, it is our responsibility to encourage the diversity in financial services that reflects the makeup of our country. It is also our responsibility to ensure that a lack of diversity does not translate in to a lack of confidence in any individual's ability to succeed at all levels of the financial industry. Today, we will investigate these issues and discuss ways to improve efforts to achieve a more diverse financial sector and to improve access to capital.

Over the past few decades, the visibility and involvement of women and minorities in social, economic, and political circles has continued to increase. An important part of increasing opportunities for all individuals begins at an early age. This means ensuring that every child has access to a first class education and the opportunity to succeed. A key component of this education includes financial literacy for individuals at all ages. However, a strong education alone will not help improve access to all sectors, which is evident by the fact that the financial sector continues to lag behind other industries in representation. We must have a continued commitment from the public and private sectors in order to break down some barriers that still exist.

While there are still considerable strides that need to be taken to increase opportunities for all individuals, the financial services industry appears to be moving in the right direction. Currently, there is promising representation in the lower and middle management ranks; however, senior management ranks continue to pose challenges. There are also signals that senior management is starting to become more aware and active in expanding opportunities to all qualified candidates, regardless of their race or sex.

Some companies continue to be more successful at promoting diversity in their workplace than others. In fact, some major corporations today have diversity programs, which encourage and recruit qualified individuals in underrepresented populations. And, many firms are also utilizing employee networks and formal mentoring programs to facilitate a more diversified workforce and to help all employees achieve their full performance and career potential. Since it is the "tone at the top" of a company that sets a good example for opportunity at all ranks, we must continue to challenge our nation's business leaders to encourage these efforts.

Better representation in financial services should also improve access to capital for all individuals. Earlier this year, the Minority Business Development Agency of the Department of Commerce released a report entitled, "Expanding Financing Opportunities for Minority Businesses." This important study found that minority-owned businesses present "an historic and dynamic growth opportunity for the U.S. economy." The study also highlights the fact that, while minority-owned businesses are growing, they exist primarily in non-asset based industries rather than in capital intensive sectors. The Subcommittee is very interested in the report's conclusion that the lack of access to financing impedes participation in certain sectors and that successful growth will require bringing minority entrepreneurial efforts into the economic mainstream. We would like to hear more from our witnesses on how to improve access to capital and encourage this transition.

I thank the witnesses for their appearance here today, and I look forward to hearing your views on these issues.

Congressman Mel Watt
Diversity in the Financial Services Industry and Access to Capital for Minority-Owned Businesses: Challenges and Opportunities
July 15, 2004

Chairwoman Kelly and Ranking Member Gutierrez:

I want to thank you for holding this important Oversight Subcommittee hearing on diversity in the financial services industry and access to capital for minority-owned businesses.

I believe it is important for us to recognize that today's hearing is part of a larger conversation about civil rights in this country. Just as in every other aspect of life, the Financial Services Committee needs to be assured that there is fair access to economic opportunity and to the capital markets. Historically disadvantaged communities in this country will never be able to fully participate in the American dream if the doors of economic opportunity remain closed to them. We here on the Financial Services should play our part in helping to ensure that all American citizens can participate in the economy, build wealth and improve the lives of their families and their communities.

I appreciate our panelists being here today to share their experiences and insights with us on today's topic. In particular, I want to express thanks to Professor Hammond for the work she has done in examining the difficulties that African-Americans have had in breaking into the ranks of certified public accountants. My office has worked with Professor Hammond before and I have had a chance to look at the work she has done in this area. Her research demonstrates the Catch-22 that minorities face in trying to gain a economic foothold in America today. As she documents, the growth in hiring of African-American CPAs significantly lags other professions. Because African-Americans are disproportionately underrepresented in the financial sector, some CPA firms have concluded that there is little need to hire African-American CPAs. I would suggest that there is something troubling about the notion that the only value in hiring African-American CPAs would be to provide services for African-American businesses. However, there is another point to be made here: by denying African-Americans and other minorities the opportunities to work in wealth-building job sectors, our society makes it virtually impossible for these communities to build a capital base that would support the kinds of businesses that Professor Hammond's research suggests are necessary before minorities will be widely hired in the accounting profession and elsewhere. This self-reinforcing cycle can only be broken if business and political leaders make the affirmative choice to end it.

I look forward to hearing from our witnesses and to continuing this conversation in future hearings.

New America Alliance
An American Latino Business Initiative

Testimony of
Ana Maria Fernández Haar
Chair of the Board
New America Alliance

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

July 15, 2004
"Diversity in the Financial Services Industry and Access to Capital for Minority-Owned Businesses: Challenges and Opportunities"

U.S. House Committee on Financial Services Chairman Michael Oxley, Ranking Member Barney Frank, Subcommittee Chairman Sue Kelly, Subcommittee Ranking Member Luis Gutierrez and members of the Committee, on behalf of the New America Alliance board of directors and members, I commend you for your leadership and the opportunity to appear before you to address the participation of American Latinos in the financial services industry and highlight issues regarding access to capital.

New America Alliance is a 501 (c) 6 organization of American Latino business leaders united to promote the economic advancement of the American Latino community to improve the quality of life in the United States. We are organized on the principle that American Latino business leaders have the responsibility to lead the process of building the forms of capital most crucial for Latino progress – economic capital, political capital, human capital and the practice of philanthropy. Alliance members believe that strategies to enhance these forms of capital must include many approaches, but one which American Latino business leaders are uniquely capable of leading is investment in our own community through coordinated philanthropy and public & private strategic collaboration.

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New America Alliance programs are developed around our Economic Capital agenda which focuses on increasing access to capital markets and financing for Latino businesses, promoting the participation and influence of American Latinos on our nation's corporate and pension fund boards, expanding the participation and influence of American Latinos in federal and state financial institutions, and investing in the higher education of American Latinos in the fields of business and finance.

American Latino Population, Purchasing Power and Entrepreneurship

The United States is the fourth largest Spanish-speaking country in the world. American Latinos – individuals of Hispanic or Latin American descent residing in the U.S. – comprise the fastest growing segment of the U.S. population. Latinos currently exceed 44 million people, representing 15 percent of our nation's population. Latinos are expected to increase to 25 percent of the U.S population by the year 2050. Current purchasing power of the Latino community is estimated at $700 billion and it is projected to reach $1 trillion by 2010, almost 11 percent of the U.S. total. This segment represents the nation's largest single pool of transnational bilingual citizens, an important part of the Spanish-speaking majority of the Western Hemisphere, portending significant trade and foreign policy implications. As the Latino population continues to increase exponentially, there is also rapid growth in its entrepreneurial activity. According to HispanTelligence, the research division of Hispanic Business Inc., it is estimated that there are currently over 2 million Latino businesses in the U.S., a number expected to increase to over 3 million companies by 2010, generating revenue of more than $465 billion.

American Latino Leadership in Executive and Top Management Positions

While indicators reveal increased participation and integration of Latinos in all facets of U.S. entrepreneurial activity and the economy, the participation of Latinos in leadership and executive roles on corporate boards and in the finance industry continues to lag. As indicated in the Hispanic Association on Corporate Responsibility *2003-04 Corporate Governance Study*, there are only 166 Fortune 1000 companies that include Latinos on their boards. Furthermore, when measuring the number of director positions occupied by Latinos, out of 10,314 positions, Latinos occupy only 202 seats, or 1.97 percent.

Collectively, the seventy-three Fortune 1000 companies classified as commercial banks, securities firms, and savings institutions have 936 director seats and 793 executive positions.

American Latinos occupy 28 of those board seats, or 2.9 percent. Nineteen percent of these companies have at least one Latino on their board including Bank of America, Citigroup, Countrywide Credit Services, Fannie Mae, Freddie Mac, General Electric, Golden West Financial, KeyCorp, Marsh & McLennan, M & T Bank, Popular, Inc., Providian Financial, Union Planters, and Wells Fargo. It is important to note that two of these companies, Citigroup and Wells Fargo, are New America Alliance Corporate Partners; we commend them for their leadership and vision.

Of the total 793 executive positions in commercial banks, securities firms, and savings institutions, American Latinos occupy 20 positions, or 2.5 percent. The companies that have at least one Latino on their executive team include Countrywide Financial, Fannie Mae, M & T Bank, Marshall & Ilsley, National City Corporation, Popular, Inc., and Union Planters.

Also, as measured by the Securities Industry Association's *2003 Report on Diversity Strategy, Development and Demographics*, the U.S. securities industry Latino workforce constitutes 4.7 percent. This, added to 7.3 percent of Asians/Pacific Islanders, 5.5 percent of African Americans, and 0.8 percent of other minorities, totals 18.3 percent of the workforce identified as minority. Taking into account that the Latino population constitutes about 15 percent of the U.S. population and that minorities collectively add up to approximately 30 percent and are expected to comprise 50 percent of the population by 2050, we encourage further efforts by the financial services industry to employ a workforce that is more representative of our nation's population.

American Latino Financial Services Firms in Institutional Investment

New America Alliance recognizes that the lack of participation by American Latinos in senior positions in the financial services industry presents a concern because the finance industry functions as the primary capital distributor in society. In the institutional investment arena, Latino majority-owned institutions continue to struggle to find adequate access to public and private pension funds, and minority procurement programs at major corporations have not typically included financial services. Furthermore, many public pension funds have not established or enforced emerging and minority managers programs.

In October 2003 as part of an ongoing research effort, New America Alliance published the White Paper *American Latinos in Financial Services* identifying trends and issues affecting American Latinos in financial services. By studying the current realities and anticipating future conditions, this report seeks to provide the strategic planning and the tactical decision-making elements to:

- increase the participation of American Latino financial services firms in the management of investments at public pension funds, corporate America and the institutional investor community
- increase access for all Latino financial services providers and
- promote the development of future American Latino financial executives.

Key findings of the White Paper which specifically examines Latino companies in the investment management consulting, asset management, private equity, and brokerage segments, are as follows:

- There is only one Latino-owned investment management consulting firm.
- In the asset management field, less than one half of one percent, $28.8 billion of the $7.2 trillion in U.S. institutional tax-exempt assets, is managed by American Latinos.
- Latino-owned private equity firms have aggregate capital available for investment of less than $500 million, translating to control of less than 0.2 percent of the funds available for investments across private equity overall.
- In the $1.1 trillion public pension fund arena in the Top 6 American Latino states (CA, FL, IL, NY, NM, and TX), total brokerage fees are roughly $1.5 billion for the management of assets. Participation of Latino-owned firms is approximately .005 percent or $7.5 million.

Some of the common challenges and barriers that limit the size and competitive advantage of American Latino financial services firms as identified in the New America Alliance White Paper are:

1) Limited access to decision makers in institutional investment such as pension trustees, executive directors and consultants, places a barrier for contracting consideration;
2) There is a misperception that Latinos do not have the ability to invest and manage funds wisely, generate attractive returns and be value-added investors;
3) These companies lack capital for expansion as they face the financing barriers that other Latino companies face;
4) Small company size, in terms of assets under management, limits the company's ability to secure contracts. As an example, for an asset manager to be considered a viable player in the $7.2 trillion institutional (tax-exempt) fund arena, the company must have a minimum base of

assets under management of $250 million to $300 million to be considered a viable player. However, such an asset base may not satisfy the biggest pension plans;

5) There is a small number of new American Latinos entering the industry. For example, there is a thin pipeline in place to produce the new generation of Latino private equity fund managers. Eighty-two percent of the fund managers across the industry are privately owned, relatively small partnerships which are generally tightly controlled by the founding partners/team and may not have interest in promoting Latinos. This, in itself, limits the ability of Latinos to obtain the necessary experience in the industry.

The four financial service sectors studied shared a common conclusion – the importance of conducting public hearings at the local, state and congressional levels. We believe that public hearings, such as this hearing, can enhance information sharing, promote familiarity with the roles and functions of key players in the financial services sector and increase the accountability of elected and appointed officials responsible for overseeing public funds.

The reach of legislators goes beyond the public funds since many corporations seek favorable legislation and/or business within the states they reside. This presents an opportunity for legislators to encourage corporations to apply the same best practices of diversity they currently use regarding procurement in the financial services sector.

Furthermore, in increasing the leadership of Latinos in financial services and Latino ownership of financial services firms, training and education are paramount. It is imperative to promote the education and integration of Latinos into the financial services industry through education and mentorship networks. Latinos must be promoted in all ranks.

American Latino Businesses and Access to Capital

American Latino entrepreneurs continue to face challenges in securing the necessary capital to start and expand their businesses. According to Hispanic Business Inc. HispanTelligence research on the Hispanic Business 500 (HB500), lack of access to capital affects the growth of Latino businesses, particularly those with revenues under $300 million. Of the 115 HB500 companies in the revenue bracket of $5 to $300 million, 70 percent finance their businesses with commercial loans or their own savings. More than 50 percent of HB500 companies with revenue of $300 million or above finance their businesses with commercial loans and only 13 percent used private placement or venture capital.

As it pertains to venture capital investment, the Kauffman Foundation's report *Minorities and Venture Capital* states that while with sufficient venture capital support, minority businesses can thrive and grow, the reverse is also true. Heightened access to venture capital will depend in part on a greater understanding of how this capital works. This report found that minority enterprise venture capital investment is very profitable. Internal rate of return was calculated by combining the cash inflows and outflows of each fund. This resulted in an internal rate of return median of 19.5 percent and a mean of 23.9 percent versus 20 percent return indicated by the comparable benchmark of the overall market. The study also revealed key sources of funding for minority investment funds including public pension funds, commercial banks and insurance companies, and intermediary fund of funds, among other sources. Of these, public pension funding was the most significant source.

While private and venture investment in minority companies is a highly profitable proposition, a study by The Milken Institute, *Mainstream Minority Businesses: Financing Domestic Emerging Markets,* indicates that less than 4 percent of Small Business Investment Company private equity funds were invested in minority deals. Furthermore, the study reveals that private equity firms focusing on minority investments have less than 3 percent of all venture capital funds under management.

In reference to Latino-managed private equity funds, the New America Alliance White Paper identifies five Latino-owned equity firms of which three are actively investing. We estimate that Latino-owned private equity firms have aggregate available capital for investment of less than $500 million, thereby controlling less than 0.5% of the funds available for investment in the buyout industry and less than 0.2% of the funds available for investment across private equity overall. We were unable to identify any Latino-owned private equity firms managing a fund larger than $250 million. Based on this information, as a group, Latino-owned firms are grossly underrepresented in the private equity sector and appear to be significantly underfunded. The biggest challenge for Latinos in private equity remains raising capital. Additionally, Latinos are often perceived as not being capable of investing funds wisely generating attractive returns, even when actual performance indicates profitability. Another common barrier not only to the proliferation of Latino-managed funds, but to private equity allocations to Latino and minority business, relates to the lack of relationships within the private equity sector which is relationship driven and difficult to penetrate. This is highly significant given that private equity and venture capital are critical components of growth for the larger and more successful small cap companies.

Availability of Data on American Latino Leadership in the Finance Industry and Public Policy Implications

Reliable data regarding Latino participation in the financial services industry is scarce. Although New America Alliance undertook the research for the White Paper as have other organizations cited in this testimony, companies are not compelled to respond to inquiries regarding Latino employment, management and funding matters. It is not unusual to find a stated minority participation of 18 percent with a Latino percentage hovering at less than 5 percent for the total workforce. While the minority umbrella is as inclusive as it should be, it tends to present a more favorable picture overall than is actually the case for the Latino segment specifically, which is significantly smaller when considering the management ranks. Hispanic Business Inc. conducts continued research, particularly on the Hispanic Business 500, through its research division HispanTelligence; this is one of the few existing sources of Hispanic-focused business research.

Recommendations to Improve American Latino Participation in Executive Level Positions in the Finance Industry

Having inclusive and diverse leadership teams based on economic opportunity and market representation makes good business sense. Broadening the composition of a corporate board with the inclusion of American Latinos and other minorities of diverse backgrounds not only makes good business sense, it demonstrates the overall strategic direction of the corporation and provides a desired edge and competitive advantage. Furthermore, the Sarbanes-Oxley reforms requiring a majority of independent directors provide an historic opportunity to incorporate diversity on corporate boards. Given the requirement for corporate boards to appoint new independent directors, corporations have an unprecedented opportunity to increase the diversity on their boards, including a greater presence of American Latinos.

Because the corporate board appointment process is highly subjective, and because decision-making is in the hands of the CEO, members of the board, and sometimes other members of the executive team, efforts to influence the selection process at this level are imperative. Corporate leaders can be proactive by developing an infrastructure to guide board appointment and hiring initiatives to create a diverse and complementing team. This can be accomplished in a number of ways including careful selection of the nominations committee and human resources executives. We believe that American Latinos serving on corporate boards also have a role in promoting the board appointment and hiring of more Latinos; given that they are inside the network, they can play an invaluable role in advancing diversity. Furthermore, executive search firms play a pivotal role in this process and are in a position to influence the selection process.

Elected and appointed officials can also play an important advocacy role in promoting corporate diversity through public statements and hearings such as this one, that foster enhanced representation and identify inclusion on the board and executive team as required criteria for excellence in governance and business. Elected and appointed officials' support of initiatives by non-profit organizations such as New America Alliance, Hispanic Association on Corporate Responsibility, The Executive Leadership Council, Catalyst, and others that promote governance excellence and diversity would also be extremely productive in advancing the inclusion of minorities on corporate boards.

Recommendations to Enhance Access to Capital

As stated by Hispanic Business HispanTelligence, closing the capital gap requires the transfer of financial technologies and market-based public policy innovations from mainstream applications to emerging domestic markets, carving channels of capital from investors to entrepreneurs. The goal is to overcome the recurring obstacles for financing of Latino and minority businesses such as the perception of being a higher risk investment, the need for smaller loans, the lack of information on market potential, and the lack of professional and social networks that link entrepreneurs to lenders, among others. This would require systematic innovations such as changes in business structures, new types of financial intermediaries, and new legal and regulatory frameworks. Product innovations that provide credit enhancements blended fund structures, angel pools and networks, and equity equivalent investments. Process innovations would also be important such as collection of data, credit scoring, mentorship and advisory services.

In a recent report issued by the U.S. Minority Business Development Agency, produced in collaboration with financing experts and community leaders, recommendations for improving flow of capital to minority enterprises include development of current and existing governmental data to support investment decision-making and identify opportunities in the MBE community; improvement of capital availability and accessibility; expanding availability of management and technical assistance; and integration of the investment community, minority entrepreneurs and the Federal Government.

We encourage the Financial Services Committee to work with other Committees of jurisdiction to examine the factors that influence selection of fund managers by retirement plan trustees to ensure American Latino-owned firms are not prevented from full participation.

A specific recommendation would involve the expansion of current Community Reinvestment Act (CRA) regulation to include insurance companies as well as public and private sector pension funds. The CRA was enacted in 1977 by Congress with the purpose of encouraging financial institutions to make credit available to the communities in which they operate. It was hoped that economically depressed areas would benefit if the money deposited in those communities stayed in those communities, benefited the people in those communities, and helped jump start economic growth. From 1997 through 2001, National Community Reinvestment Coalition calculates that banks have pledged over $1.512 trillion in loans, investments, and services to minority and low- and moderate-income communities in CRA agreements and voluntary commitments. The vast majority of the funds were for housing, small business financing and community development activities. This sum far exceeds the capital allocated by public and private pension funds or insurance companies to the lower income communities throughout the nation. While the CRA act could be improved, it has served as a significant economic locomotive to disadvantaged areas of our country and for the most part has proven to be a profitable activity for banks. We believe similar programs sponsored by insurance companies and pension funds would be equally profitable and provide additional billions of dollars in capital to our domestic emerging markets.

Conclusion

This hearing, in and of itself, and the interest this Committee has taken in the matter, will serve to convey your commitment to corporate responsibility and governance leading to equitable consideration and proactive initiatives which will result in economic progress for the country as a whole. We encourage the Financial Services Committee to continue this effort and to examine diversity practices and the participation of American Latinos in the financial services industry in further detail.

The relationship between business success and access to capital applies to all entrepreneurial ventures whether in the minority space or in the mainstream. While initiatives to improve access to capital must continue to be at the forefront of private, public, and community efforts, it is equally important to integrate American Latinos and diverse minority representation in top leadership and decision-making positions so that the process of developing and implementing solutions can consider and address diverse perspectives and experiences.

We, at New America Alliance, are committed to increasing access to capital markets and financing for Latino businesses, promoting the participation and influence of American Latinos on our nation's corporate and pension fund boards, expanding the participation and influence of American Latinos in federal and state financial institutions, and investing in the higher education of American Latinos in the fields of business and finance. Our effort to promote the economic advancement of the American Latino community is intended to benefit our community and our nation. We stand ready to collaborate with the U.S. House Committee on Financial Services, other legislative and government leaders, corporate America, and the minority community leaders in advancing our common goal of prosperity for all.

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Testimony of Theresa A. Hammond
Author, *A White-Collar Profession: African-American Certified Public Accountants Since 1921* (University of North Carolina Press, 2002)
Chairperson, Department of Accounting
Wallace E. Carroll School of Management
Boston College

Before the
Subcommittee on Oversight and Investigations
Committee on Financial Services
United States House of Representatives
July 15, 2004

Hearing on Diversity in the Financial Services Industry and Access to Capital for Minority-Owned Businesses: Challenges and Opportunities

Chair Kelly, Ranking Member Gutierrez, Chairman Oxley, and Ranking Member Frank, thank you for the opportunity to address the Committee on the critical matter of the dearth of African Americans and other minority groups in the Certified Public Accountancy (CPA) profession.

Fewer than one percent of CPAs are African-American. This is a smaller percentage than in any other major profession, and this testimony addresses some of the reasons for this shortfall. Certified Public Accountancy is unique in that a candidate to become a CPA must work for a CPA. Because, for most of this century, white CPAs refused to hire African Americans, by 1965 only about one in one thousand CPAs was African American. While some progress has been made, the numbers are still abysmal. The National Association of Black Accountants (NABA) has played a leadership role in countering the dearth of African American CPAs, but the mainstream of the profession has not made the issue a high priority. Exacerbating this problem is the lack of firm-specific information on the progress of African Americans in the profession. In contrast to law firms, public accounting firms do not report publicly the composition of their ranks. The absence of this information helps obscure the small number of African Americans in this critical field, and further deflects attention from the issue.

I have answered the direct questions asked by the Committee below.

1. What is the percentage of major-CPA-firm partners who are African American and Latino?

Beginning in 1976, shortly after the American Institute of Certified Public Accountants (AICPA) formed a Minority Recruitment Committee, the AICPA surveyed major public accounting firms annually to document the progress minorities were making in the profession. After revealing several years of decline in the 1980s, the annual survey was discontinued in 1989, and only a few surveys have been taken subsequently, the latest of which covered data from 1996. According to this most recent survey, fewer than one in one thousand partners in major public accounting firms were African American; three in one thousand were Latino.

Table 1: Minority Representation in Major Public Accounting Firms (1996)[1]

	White (not Latino)	African American	Latino	Asian American	Other
Partners	98.7%	0.08%	0.3%	0.6%	0.2%
CPAs	96.5%	0.4%	0.9%	1.9%	0.2%
Professionals	92.7%	1.4%	1.5%	3.9%	0.4%
Accounting Graduates	74%	8.4%	7.0%	7.4%	3.0%
2004 U.S. Population	75.1%	12.3%	12.5%	3.6%	1.0%

As is evident in Table 1, the shortage of minority-group members, particularly African Americans and Latinos, permeates all layers of the major firms. Attaining a position working for one of these firms is critical to the career path of financial professionals. While only a small percentage of CPAs remain with the firms to become partners, earning a CPA provides an entrée into the leading corporate finance departments, and from there to Chief Financial Officer and other executive positions.

2. What is your opinion to explain the apparently low level of diversity among CPAs?

There are close to half a million certified public accountants in the United States. Although the profession garners little media coverage, it wields substantial power over the nation's most consequential financial transactions. Every publicly traded company and most major governmental and not-for-profit entities must have their financial records audited by a CPA. The "Big Four" firms that dominate the industry--KPMG, Deloitte & Touche, PriceWaterhouseCoopers, and Ernst & Young--audit over 95% of the Fortune 500, and earn revenues in excess of $40 billion annually.

As noted in response to question #1, there is an abysmally low representation of African Americans within this important profession. Major reasons for this shortage are outlined below:

A History of Discrimination & Absence of Mentors

Only a fraction of students who major in accounting in college become CPAs. Earning a CPA requires passing a demanding examination and, in most states, serving an apprenticeship under a CPA. As documented in my book, before the Civil Rights

[1] Sources: For firm data: *Report on Minority Accounting Graduates, Enrollment and Public Accounting Professionals--1997* (American Institute of CPAs, Minority Initiatives Committee, 1997). For U.S. Population: U.S. Bureau of the Census, *Statistical Abstract of the United States*: 2004.

Movement many talented African-American men and women earned accounting degrees and passed the examination, but meeting the experience requirement presented the greatest hurdle. For the first two-thirds of the 20^{th} century, it was rare that a white CPA would hire and train an African American. This history has resulted in few family role models for young African Americans who might otherwise have developed an interest in the public accounting profession.

There are many instances of talented, well-educated African Americans who faced almost insurmountable barriers to becoming CPAs in the early decades of this century.[2] Two examples from my book follow:

Bernadine Coles Gines grew up in Virginia, but, because the University of Virginia did not admit African Americans, in 1946 Gines headed for New York University. Two years later, when Gines completed her master's degree, she had intense difficulty finding a position with a CPA firm. She worked as a bookkeeper for an African-American newspaper, the *New York Age*, but wanted to get experience working for a CPA so that she could earn her certificate. From her residence at the YWCA in Harlem, she sent many letters of application but did not get a single positive response.

Gines moved from Harlem to Queens, and suddenly, because her address no longer revealed her race, she was invited for several interviews. Nevertheless, when she appeared for interviews, she received no offers. A partner at the first firm with which she interviewed told her that he could not hire her as an accountant. Instead, he asked if she could help him find a maid for his wife.

After two years of searching Gines was interviewed by two young Jewish men who quickly overcame their surprise that she was African American. To her delight, they offered her a position. In 1954, while working for the firm, she became the first African-American woman in New York State to earn her CPA.

Like Bernadine Gines, Talmadge Tillman grew up in the South but moved in the hope of finding better opportunities. Born in North Carolina, Tillman attended Morehouse College and Indiana University as an undergraduate, and became the first black graduate of Syracuse University's MBA program in 1948. In 1951 he moved to California, where he hoped to find a firm that would provide the requisite experience so he could become a CPA.

Immediately upon arrival in Los Angeles, Tillman registered his resume with the California CPA Society. Based on his exceptional educational credentials, a CPA telephoned him and offered him the job over the phone, "I went to his office the next morning and he stated, 'Boy, what can I do for you?' I told him I was Tillman and that he had given me a job and told me to come to work. He placed his head on the desk and just shook it. He then said, 'You are a Negro; I cannot give you the job.'"

Tillman bought a detailed map of Los Angeles. Using a phonebook, he mapped out all the CPA firms in the city, spending six weeks walking different neighborhoods and applying for jobs. He knew he was ahead of his time, but he was convinced that "somewhere out there someone was going to give me a job." At the end of the six weeks, his conviction proved to be true, and he accepted a position as an auditor with a Jewish-owned CPA firm.

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[2] Theresa Hammond, *A White-Collar Profession: African-American Certified Public Accountants Since 1921* (University of North Carolina Press, 2002).

Tillman worked for the firm for almost a year. During this period, the managing partner of the office had been serving in the Korean War. As Tillman describes it, "[A]fter he came back from fighting for democracy, he walked in the office and saw me and a [black] girl named Linda... [H]e told me, 'It doesn't look good to have Negroes in the office.'" Within days, both Tillman and Linda had been fired by mail.

Tillman persevered. Still in need of more experience to meet the requirement, one of Tillman's professors arranged an interview with a firm that had four open positions. The firm recruiters gave him a written test, an unusual, if not unheard of, approach when interviewing someone with an MBA for an entry-level job in accounting. Tillman passed the test, but was told he would not be hired. Tillman asked them why they had given him the test if they knew they were not going to hire him. He was told, "We wanted to see what a Negro could know about accounting." Tillman became a math teacher, and later earned a Ph.D. at the University of Southern California, but was unable to complete the requirements to become a CPA until 1965.

This relentless exclusion came to an end in the late 1960s, when the major public accounting firms began to hire and promote African Americans. In 1971 Elmer Whiting, Jr. became the first African-American partner in a "Big Eight" public accounting firm when his practice merged with one of these largest firms. In 1976, there were still only two black partners in the eight largest firms.

While progress continued through the 1970s, the situation reversed in the 1980s. A review of the content of the *Wall Street Journal* in the 1970s and 1980s demonstrates that the earlier decade was characterized by frequent celebrations of African-American progress in previously all-white fields, but that the stories in the 1980s were more likely to comprise complaints about "reverse discrimination" and the need for an end to proactive efforts to recruit African Americans.[3] That shift in mood was reflected in the CPA profession. During the 1980s every measure of African-American progress in public accounting firms declined: percentage of African Americans hired, percentage of African Americans remaining with the firms, percentage of African Americans promoted, and percentage of historically black college graduates hired.[4] The decline in the 1980s led into a decade of stagnation in the 1990s, and, with fewer than one percent of CPAs being African American, the industry currently has the lowest representation of African Americans of any major profession.

Lack of African-American Faculty

As a byproduct of the complete exclusion from the profession that characterized the early decades of the twentieth century, very few African Americans earned Ph.D.s and became accounting professors. Partly because there were so few opportunities for their graduates, the historically black colleges and universities (HBCUs) did not offer a full complement of accounting courses until the 1970s. In the 1970s there was a push to increase the number of African-American Ph.D.s in accounting, and to thereby improve the accounting programs in the HBCUs. Unfortunately, however, that progress was

[3] Theresa Hammond, "From Complete Exclusion to Minimal Inclusion: African Americans and the Public Accounting Industry, 1965-1988," *Accounting, Organizations and Society* Vol. 22, No. 1, 1997, pp. 29-53.

[4] *Report on Minority Accounting Graduates, Enrollment and Public Accounting Professionals* (American Institute of Certified Public Accountants, 1976-1989).

short-lived, as the 1980s saw declines in African-American participation in Ph.D. programs, largely as a result of severe cuts in federal financial aid.[5] The shortage is particularly critical because studies of other professions demonstrate that the presence of an African-American faculty member is a major determinant of black students' professional choices.[6]

The lack of African-American faculty is one of the few areas that has been directly addressed and has begun to be ameliorated. In 1994, the KPMG Foundation launched the PhD Project, a scholarship, mentoring, networking, and advertising program designed to increase the diversity of accounting professors—more recently expanded to include all business fields. As a direct result of this program, the number of African-American faculty in accounting has increased substantially. Although the overall number of Ph.D.s in accounting has declined by almost half since 1992, the number of African-American doctoral students in the field has more than doubled, from twenty-two to fifty-one. Because of the small size of the original numbers, ample room for progress remains.

Lack of Black-owned Businesses

Prior to 1965, the largest group of African-American CPAs was found in Chicago, because Chicago was the site of many of the largest black-owned businesses in the country. While most businesses require a bookkeeper, only large businesses require someone with the expertise of a CPA. The continuing lack of access to capital and corresponding low rate of business ownership by African Americans remains a major contributing factor to the lack of African-American CPAs.

As noted in response to question #1, earning a CPA can lead to leadership positions in the financial divisions of major corporations. These controllers, chief accountants, chief financial officers, and board members, in turn, hire the CPA firms that audit their companies. The absence of African Americans becomes a cycle: clients who earned their CPA working for homogeneous firms do not recognize the lack of diversity as a problem.

End of Minority Set Asides

In the 1970s and 1980s many government programs on the local and national level recognized that the history of excluding African-American-owned businesses from lucrative government contracts needed to be addressed. The minority set-aside programs that were developed helped many African American CPAs form their own firms to serve government and community agencies. The subsequent dismantling of these programs has had a deleterious impact on the success of black-owned CPA firms.

Firm Culture

Partly due to its history of discrimination and partly due to the nature of the public accounting profession—ensuring that clients are conforming to rules—the culture of public accounting is unusually homogeneous. This leads to high turnover, especially among African Americans. Because the major public accounting firms are so large, and

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[5] Theresa Hammond, "Some Considerations in Attracting and Retaining African-American Doctoral Candidates in Accounting," *Issues in Accounting Education* Vol. 10 No. 1, Spring 1995, pp. 143-158.

[6] James Blackwell, *Mainstreaming Outsiders: The Production of Black Professionals* (Dix Hills, NY: General Hall, 1987).

because they hire so many new employees each year, they place a premium on the ability to conform to firm culture. Because the firms, and especially their leadership, are overwhelmingly white, there is a higher probability that African-American employees, will have difficulty adjusting to the environment.

In recognition of this disadvantage, a new initiative based at Howard University is being developed to help African American accounting graduates—especially those who attended HBCUs—learn to adapt to the business culture, with particular emphasis on the unique demands of major public accounting firms.

The Term "Diversity" Obscures the Lack of Progress

Attention to the declining participation of African Americans in the CPA industry was muted by a conversion that took place in the late twentieth century. When the American Institute of Certified Public Accountants and the major accounting firms first publicly committed to ending discrimination in 1968, the focus was on the absence of African Americans in the profession. By the 1980s, talk of under-representation had shifted towards "minorities" or "diversity," and the firms lumped the participation of African Americans, Latinos, Asian Americans, and white women together under one group. All three of these latter groups, while not achieving parity with their representation in the population, were growing in the firms due largely to their growing share of overall employment. Almost unnoticed, African-American participation was declining.

In the 1990s this became even more distinct, as the firms recognized the expense associated with high turnover among their female employees, who constituted over half of their new hires each year. The largest firms developed targeted programs to retain and promote women, and they have been fairly successful: the percentage of women partners jumped from 12% in 1993 to 19% in 2003; in 2003 44% of new managers and 25% of new partners in the large public accounting firms were women. In the meantime, African-American recruitment, retention, and promotion seem to have stagnated, which does not provoke widespread concern.

Educational Disadvantages

African Americans and Latinos disproportionately attend underfinanced public primary and secondary schools that do not prepare them well for pursuing professional degrees, particularly those based on strong math backgrounds, such as accounting. Inadequate math backgrounds, combined with the lack of familiarity with business and finance that arises from the history of exclusion from these fields, make pursuing an accounting major disproportionately difficult for African Americans. In recognition of this deficiency, the National Association of Black Accountants has launched a new Financial Literacy Initiative aimed at educating the wider black community on financial issues.

Despite these educational disadvantages, since the mid 1970s African Americans have consistently constituted between six and eight percent of Accounting graduates. If these graduates experienced equal opportunity within the profession, the number of CPAs should be well above its current mark of approximately one percent.

3. Is there a higher percentage in other professional organizations that make them more successful at recruiting, retaining, and promoting minorities? What in your opinion are the reasons?

Certified Public Accountants have the lowest representation of African Americans of any of the major professions. Despite the fact that becoming a lawyer or a doctor requires many more years of education than does becoming a CPA, CPAs have always had a much lower representation of African Americans, as shown in the Table 2:

Table 2: African-American Participation in Three Professions[7]

	Lawyers	**Doctors**	**CPAs**
1930	0.8%	2.5%	0.03%
1960	1.0%	2.0%	0.1%
1996	2.7%	4.2%	Less than 1%

Historical Development

Differences in the development of the professions help explain the variations in under-representation. African American doctors and lawyers were denied participation in majority-white institutions for most of this century, but they were leaders in meeting the medical and legal needs of the African American community. In contrast, centuries of restricted economic opportunities resulted in few African-American-owned businesses large enough to require the services of a certified public accountant. Consequently, until the 1960s, only under exceptional circumstances could African American CPAs earn a livelihood within the black community. This difference also meant that, while African American medical and law schools have a long history, black colleges rarely offered programs in accountancy.

Varied Professional Hurdles

Barriers to the professions differ at the entry level. Entrance to the medical and legal professions primarily depends on obtaining the appropriate education and passing state-supervised examinations. Becoming a CPA not only requires passing the certified

[7] U.S. Bureau of the Census, *Fifteenth U.S. Census 1930;* U.S. Bureau of the Census, *Eighteenth U.S. Census 1960*; U.S. Bureau of the Census, *Statistical Abstract of the United States: 1998,* 417-419; *The History of Black Accountancy: The First 100 Black CPAs,* National Association of Black Accountants, 1990; James Don Edwards, *History of Public Accounting in the United States* (Tuscaloosa: University of Alabama Press, 1978); Bert Mitchell, and Virginia Flintall, "The Status of the Black CPA: Twenty-Year Update," *Journal of Accountancy* 170, no.2 (August 1990): 59-69; *Report on Minority Accounting Graduates, Enrollment and Public Accounting Professionals* (American Institute of Certified Public Accountants, 1976-1989); Julia Lawlor, "Blacks Counted out of Accounting, Study Says," *USA Today,* 9 August 1990, Section: Money, 1; *Report on the Status of Blacks in the CPA Profession* (New York State Society of Certified Public Accountants, 1990); Elizabeth Chambliss, *Miles to Go 2000: Progress of Minorities in the Legal Profession* (American Bar Association Commission on Racial and Ethnic Diversity in the Profession, 2000).

public accountancy examination, but also meeting an experience requirement by working for a licensed CPA. As noted above, for most of this century virtually no whites would hire and train an African American to become a CPA. A medical graduate—who could work for a black-owned hospital associated with an HBCU—could earn full credentials without being dependent on white-run institutions. A law graduate could become a full-fledged lawyer without setting foot in a white-owned firm. Prospective CPAs had, and still have, fewer options.

Inflexible Career Path

CPA firms have a hierarchical, "up-or-out" structure. Recruits come straight out of college, and successful employees get promoted every few years on a regular schedule—to senior, then to manager, then to partner.

This promotional structure is not conducive to the advancement of African Americans. David Thomas and John Gabarro's landmark study of African-American success in corporations finds that successful African-American executives often had slow beginnings to their professional careers. In *Breaking Through: The Making of Minority Executives in Corporate America,* they found that employers quickly identified whites as either high- or low-potential employees, and those who fell into the former category were given important assignments and promoted accordingly.[8] African-American employees, in contrast, were frequently tested at early stages of their careers, and, though they might be promoted rapidly later in their careers, they had to exceed expectations repeatedly in order to be given a chance at promotions early in their careers. The rigid timing of CPA-firm promotions could mean that most high-potential African-American employees leave the firm after becoming frustrated by the absence of opportunity in their early years. Because of the experience requirement, this means many African Americans leave the firms without becoming CPAs.

Fewer Firms Means More Concentrated Power

Because only four firms so completely dominate the market for audits of publicly traded companies, these four firms have little accountability. Corporations that desire legitimate audits have almost no choice but to select one of these four firms. More pertinent to this hearing, students who graduate from accounting programs all aspire to joining the same four firms in order to get the most comprehensive and prestigious training possible.

Over 150,000 professional employees work in the U.S. offices of the Big Four, and they recruit from hundreds of schools. In contrast, in the legal profession there are many law firms and relatively few top schools from which to recruit. The students in these desirable schools put pressure on the law firms to report their success in hiring and promoting African Americans and other under-represented groups. Each year this information is published in a recruiting guide, and the few firms that refuse to provide numbers risk alienating those they would like to employ. In CPA firms, the employment situation is reversed. It is impossible to get firm-specific employment data on race from the Big Four firms, and currently there is no meaningful pressure for them to provide this information.

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[8] David Thomas and John Gabarro, *Breaking Through: The Making of Minority Executives in Corporate America* (Cambridge, MA: Harvard University Press, 1999).

In an effort to gather better intelligence on the industry's demographics, NABA is working with its major firm and corporate partners in the profession to gather information on partners, chief financial officers, treasurers and division controllers. The increased transparency that should arise from this undertaking would be a major step in addressing the disparity in the profession.

Apparently Fewer Stakeholders

Certified *Public* Accountants are intended to be accountable to the public they serve; the disastrous consequences of their not fulfilling this mission has been in evidence in recent years with the financial reporting scandals at Enron, WorldCom, and other major corporations. Nonetheless, the public at large rarely recognizes the importance of the CPA profession in the same way it recognizes the importance of the roles played by doctors and lawyers. When the percentage of African Americans in medical schools declined in the 1980s, various interest groups drew attention to the issue and to the important role African-American doctors play in providing medical care to underserved communities. The same response does not arise when the percentage of African Americans attaining CPAs declines.

Historically, the firms have responded to pressure from only two groups: their clients and the federal government. With regard to African American recruitment, in the 1950s and 1960s many of the firms explained their refusal to hire African Americans by saying that their clients wouldn't tolerate a black auditor. In the 1970s and 1980s many African American accountants report being taken off particular audits when the firm for which they worked yielded to a request that no black accountants be assigned to work in their offices.

Throughout its history, the CPA profession has been loath to change except when it has faced direct government pressure. For example, in 1968 the Human Rights Commission of New York State investigated the major firms' lack of diversity, and in 1976 the United States Senate inquired into the status of promotion of African Americans in the eight largest firms.[9] Only during this period were significant efforts undertaken to increase the participation of African Americans in the profession. In the 1980s, when pressure from the federal government waned, the impact on CPA firms was immediate: the meager participation of African Americans declined.

Conclusion

This hearing constitutes a very important first step in drawing attention to the dearth of African Americans in the public accounting profession. The public understands that it is important to have African American leadership in the visible professions of law and medicine, but the abysmal number of African Americans CPAs has not caused much concern. The severe under-representation must be rectified so that the certified *public* accounting profession truly represents the public. A cursory glance at Table 1 makes it apparent that it does not: over 12% of the population is African American, yet fewer than 0.1% of partners are black. By adding new viewpoints and perspectives, a more diverse

[9] "State Body Accuses 6 Concerns of Bias," *New York Times,* May 9, 1968, p. 51; United States Senate, Committee on Government Operations, *The Accounting Establishment: A Staff Study Prepared by the Subcommittee on Reports, Accounting and Management,* 95th Congress, 1st Session, 1977.

profession may help prevent the excessively cozy relationships between CPA firms and their clients that led to the recent accounting scandals.

It has been almost thirty years since the U.S. Congress requested a report from the major firms on how they were faring with promoting African Americans to partner.[10] Congress and the SEC should require each firm to report annually its success in recruiting, retaining, and promoting African Americans. If the numbers are public, the Big Four and other firms will compete with each other to improve their profiles. Perhaps it is time to remind the firms of the importance of this issue by requesting the information again.

[10] United States Senate, Committee on Government Operations, *The Accounting Establishment: A Staff Study Prepared by the Subcommittee on Reports, Accounting and Management,* 95th Congress, 1st Session, 1977.

TESTIMONY OF WOMEN IN HOUSING & FINANCE, INC.

BEFORE THE SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS OF THE HOUSE COMMITTEE ON FINANCIAL SERVICES

"DIVERSITY IN THE FINANCIAL SERVICES INDUSTRY AND ACCESS TO CAPITAL FOR MINORITY-OWNED BUSINESSES: CHALLENGES AND OPPORTUNITIES"

Thursday, July 15, 2004
10:00 a.m.

Chairwoman Kelly, Ranking Member Gutierrez, and Members of the Subcommittee, I am Joanne Hanley, President of Women in Housing & Finance, Inc. We appreciate the opportunity to testify before the Subcommittee on Oversight and Investigations about this important topic -- Diversity in the Financial Services Industry and Access to Capital for Minority-Owned Businesses.

Women in Housing & Finance, Inc., or WHF, as we call ourselves, is an example of an organization that was created to afford opportunities for women to advance in the financial services industry. Women lacked such opportunities twenty-five years ago. WHF has grown as a result of our organization's proactive stance on diversity -- we are a stronger organization because of our diverse membership. Nonetheless, challenges remain for our members' continued success as professionals. A brief review of the path taken by WHF to help women advance in the financial services industry can serve to provide perspective on this issue.

The mission statement of WHF provides an overview of the organization:

> WHF, a professional and non-partisan association of women and men in the fields of housing and financial services, is a premier forum for national policy leaders to address key policy issues. Established in 1979, WHF

promotes women through professional enrichment and leadership enhancement.

WHF carries out our mission by offering substantive educational programs on the current issues facing housing and financial services, usually through lunch-time programs that fit into a busy professional's schedule. We also offer career development and leadership training programs. WHF members contribute to the betterment of the metropolitan Washington, D.C., community through our involvement with the WHF Foundation. The WHF Foundation provides charitable services and educational activities related to housing and finance to provide assistance to local women and their families.

How does the WHF experience shed light on the question of diversity in the financial services industry? WHF was created because of the lack of diversity in the industry -- in particular, the lack of women. Further, it's significant to note that WHF represents a solution designed by women, for women, based on our evolving needs. Some common themes emerge from a review of our history:

- WHF members want the same access to policymakers as other groups have;
- WHF members saw the benefit in expanding our membership ranks to include men as well as the women who founded the organization; diversity was embraced by the organization as an effective means to achieving our individual goals;
- WHF members want not just to network with the policymakers; we want to create career paths that enable us to become those policymakers;
- WHF members are willing to put in extra effort to acquire the skills needed in executive-level positions;
- WHF members want to use our personal and financial resources to give back to the community, especially to women needing assistance with housing and finance issues.

A brief review of the evolution of WHF underscores these points.

WHF had its origins in 1979, when women in Washington lacked the opportunity to participate in forums with policymakers. The "old boy" network simply closed women out of important meetings. A small nucleus of women in the housing field recognized the need for women in the male-dominated industry to join forces to share policy views as well as techniques for boosting each other's career success. The group was so small that they were able to meet around one table in a Chinatown restaurant for lunch. The group soon attracted women from financial services as well as housing and rapidly grew to almost 100 members. WHF then struggled with two decisions: whether to grow beyond 100 and whether to admit men as members. Both of those questions were answered in the affirmative, as WHF elected to increase its strength by becoming more diverse.

In the twenty-five years since those first lunches, WHF has grown to an organization of over 700 women and men from over 260 organizations in both the public and the private sectors. Our current members include a Governor of the Federal Reserve Board, a Commissioner of the Securities and Exchange Commission, two members of the National Credit Union Administration Board, the president of a major financial services trade association -- and those are just a few of our high-level female members. We also count as members the heads of several of the other financial institutions regulatory agencies, who happen to be men. Organizations represented run the gamut of the entities involved in housing and finance: the Departments of the Treasury and of Housing and Urban Development, Congressional staff, the federal financial regulatory agencies, trade associations, the media, financial services companies, law firms, accounting firms, and consulting entities.

As WHF celebrates our 25th anniversary this year, we are now a professional and non-partisan association of women and men in the fields of housing and financial services. Our organization is regarded as a premier forum for national policy leaders to address key policy issues. I emphasize non-partisan because that is one of our strengths -- we provide a networking bridge across the professional and political spectrum and welcome all points of view. We use several means to provide access to national policy leaders for discussing policy issues with our members: monthly luncheons, brown bag lunches, symposia, and special events. While WHF's monthly luncheons and symposia are open to the press, the brown bag lunches and special events are generally "off-the-record," allowing speakers to be more candid in discussing the issues at hand.

From its initiation, the WHF monthly luncheon has been a centerpiece of our formal educational activities, providing members with opportunities that aid them in seeking a higher level of expertise and professionalism. These monthly luncheons attract leaders in the financial services and housing arena. Recent speakers have included: OTS Director James Gilleran; Representative Richard H. Baker; Comptroller of the Currency John Hawke; Federal Trade Commission Chairman Timothy J. Muris.; Representative Spencer Bachus; Senator Paul S. Sarbanes; and Public Company Accounting Oversight Board Chairman William J. McDonough. In addition, WHF has had politically and financially oriented speakers such as political analyst Stuart Rothenberg and Ruth Ann Marshall, president of the North America Region of MasterCard International. A tradition that continues through today is that speakers allow time for a question and answer session following their formal remarks, giving WHF members an opportunity to pursue in greater detail some aspect of the topic addressed.

In the mid-1980s, WHF initiated a program of "brown bag lunches," which are organized by our Task Forces. Our Task Forces currently include: Legislative, Regulatory, International, Securities, Housing, and Insurance. Our brown bag lunches are less formal gatherings at which a prominent speaker or panel of speakers can address in depth some topic of professional interest to WHF members. For example, an Administration speaker may highlight how a new regulation will be implemented; proponents of opposing sides on a pending legislative matter may explain the reasons for their respective positions; or a panel of financial regulatory agency chief counsel may provide an update on the most significant issues facing their respective agencies. A follow-up Q&A session is a hallmark of these events.

A third forum for national policy leaders was begun by WHF in the early 1990's -- all-day symposia focusing on significant topical issues, such as Preemption, Predatory Lending, Use of Tax Credits for Housing, and implementing Gramm-Leach-Bliley. Individual speakers as well as panels are able to address the topic in depth. The regulatory agencies typically pay for staff to attend these programs, a testament to the educational quality and timeliness of WHF symposia.

Our special events highlight policy leaders of special interest to our members and include Congressional receptions, women leaders' breakfasts, and the Regulators' receptions. These programs enable members to network in informal settings with prominent policy leaders and role models.

Let me now turn to an increasingly significant initiative for our organization -- programs explicitly designed to offer career development and leadership training for our members. An obvious benefit of a women's organization is the opportunity for "on-the-job" leadership training that occurs as a result of the need to create and maintain a leadership structure for the organization. Through assuming leadership roles in WHF, our members have learned: to chair committees and task forces, to organize the programs, to speak at symposia and brownbag lunches, and to serve as executive officers and Board members. These are significant leadership opportunities which build an array of skills that are directly transferable into success in one's professional career.

Further enhancements to career development were begun in the late 1990's when WHF began to offer brown bag lunches focused not only on substantive issues in the housing and financial services arena but also on our members' professional development. Early programs addressed such topics as: resume-writing, public speaking, and obtaining a political appointment. About two years ago, our Professional Development Committee significantly expanded this effort to offer leadership training. The first program, the WHF Protégé Program, provided in-depth training over a six-month period to a small group of our members on such skills as leading and facilitating effective meetings, using PowerPoint effectively, and public speaking. The emphasis was on getting up and actually practicing the skills. The Protégés have since been given opportunities to try out their newly acquired skills at WHF events, such as by introducing a panel of speakers. The second program, the WHF Executive Leadership Development Program, was offered to a larger audience and focused on the types of skills one would need to become a Presidential appointee or the head of a major trade association -- testifying before Congress, holding press conferences, and granting press interviews. Drawing primarily from our own diverse membership, panels with expertise in these areas (including reporters) shared their tips for mastering these crucial leadership skills.

The Professional Development Committee recently conducted a survey of WHF members to learn more about the types of programs members would find most useful in advancing their careers. The list of the most requested programs is revealing:

1) Strategies for Transitioning to a New Job (repackaging your skills; reworking your resume; networking; role-playing)

2) How to be Appointed to A Corporate or Non-Profit Board of Directors

3) Power – How to Get It/ How to Use It

4) How To Launch a Successful Second Career

5) Getting Through the Glass Ceiling.

This feedback will guide our future career development brown bag lunch programs.

Additionally, the Professional Development Committee launched another new initiative this year -- providing financial literacy programs for our members. Even though our fields are housing and finance, our busy lives often prevent our developing the necessary expertise to manage our own finances optimally. We jump-started this series of brown bag lunches with a program in January on learning how to choose solid investments (with a presentation by the Director of Investor Education and Assistance of the Securities and Exchange Commission on the powerful resources available on the SEC's website), followed by a panel discussion on Identity Theft -- How to Prevent It.

The Professional Development Committee plans to continue these three initiatives -- leadership training, career development brown bag lunches, and financial literacy brown bag lunches -- to meet our members' growing needs.

I'd like to turn now to a brief discussion of a parallel development that is a natural outgrowth of both the diversity of our membership as well as the career advancement of our members -- and that is a desire to give back to the community. In 1997, with the full support of WHF, a small group of our members launched the WHF Foundation to "help women and their families in the Washington, DC metropolitan area by providing charitable services and educational activities primarily in the fields of housing and finance." WHF Members provide funding for the Foundation through a variety of fundraising activities. This money provides the base for grants which have been awarded to various DC-area organizations that provide housing or financial literacy programs for low-income women and their families. Foundation activities to date include: a personal finance program at the Latin American Youth Center, Ellen Wilson Community Development Corporation and United Communities Ministry. In 2003, the WHF Foundation also provided grants to fourteen area groups including Northwest Church Family Network, Hannah's House, the Women's Center, Crossway Community, Good Shepherd, and Community Family Life Services. Additionally, WHF members offer their talents to some of the organizations directly by teaching financial literacy classes and providing charitable services. Future Foundation plans include: providing personal finance counseling to at least five community groups, funding another set of partnership grants, and establishing a scholarship program for a local student in the areas of housing and finance.

With the success of both WHF as an organization and of its members in their respective careers, the question remains as to whether there is still a place for an organization that focuses on the success of *women* in the fields of housing and finance. As I mentioned earlier in my testimony, WHF early on made the decision to open our membership to men. Currently, one-third of our membership are men and one-third of our Board of Directors are men. So, should we remain focused on women? Our leadership met earlier this year in a series of strategic planning sessions and debated this issue. We concluded that the need for career enhancement remains for women who face obstacles in the financial services and housing industry, and we reaffirmed the focus on women's success as a key element of our organization. While our leadership training programs are open to men, the perspective is on the way women lead and the strategies that bring success to women in the workplace.

In summary, WHF's experiences demonstrate that concerted effort was needed to ensure diversity in the financial services industry. Much progress has been made. However, women continue to perceive the need for continued education and skill-building to ensure our inclusion at the highest levels in the industry. This is why our mission statement emphasizes that "WHF promotes women through professional enrichment and leadership enhancement."

I welcome your questions.

STATEMENT TO THE SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS

COMMITTEE ON FINANCIAL SERVICES

UNITED STATES HOUSE OF REPRESENTATIVES

JULY 15, 2004

Michael D. Kennedy
Managing Director, Atlanta
Korn/Ferry International

Chairwoman Kelly, Congressman Gutierrez, distinguished members of the Sub-Committee on Oversight and Investigations. Good morning. I have been invited today to discuss the Status of Diversity in the Financial Services Industry. As Chairwoman Kelly mentioned, I am a Managing Director in the Atlanta Office of Korn/Ferry International. Korn/Ferry is the leading global executive search firm with nearly 70 offices in 36 different countries. In addition to being a member of our global financial services practice, I am a member of the firm's diversity practice. Our diversity practice was started in 1998 to assist our clients in addressing their diversity recruiting needs. Although we use a broad definition of diversity, most of our clients have focused primarily on the recruitment of talented women and people of color.

In looking at the current status of diversity within financial services, it is a story of good news/not so good news. It is very clear that there has been significant progress over the past ten years in the recruitment of women and minorities into this industry. First, the overall attitude has shifted. Diversity used to be viewed as being "altruistic" several years ago. Today, Corporate America realizes that diversity is essential for business reasons. In a recent interview in the **New York Times**, Gil Griffin, Head of Korn/Ferry's Diversity Practice, stated that "having a diverse work force is good business on so many levels, but ultimately, the main reason is that if companies don't do it, their competitors will, and they will be getting more business when they do. Diversity has to be a business imperative. Anyone who is doing diversity for do-goodism will fail."

In Korn/Ferry's 30th Annual Board of Directors survey of Fortune 1000 companies, the percentage of corporations with minority Board members rose from 65 percent in 2000 to 71 percent in 2002. Female Board representation rose from 74 percent in 2000 to 79 percent in 2002. In a November survey of corporate officers and top earners, "women represented 15.7 percent of corporate officers in America's 500 largest companies, up from 12.5 percent in 2000 and 8.7 percent in 1995." This survey was conducted by Catalyst, a non-profit research and advisory organization that tracks the advancement of women in business.

Over the past ten years, we have also witnessed the emergence of corporate diversity programs at most major financial services firms. In many firms, Chief Diversity Officers have been appointed with several reporting directly into the office of the CEO. These officers have been designated to drive diversity throughout their respective companies. On the recruiting side of these programs, there is a wide variety in overall strategies. Many firms utilize these programs to focus primarily on the entrance of talented women and people of color at the lower managerial levels. The strategy here is to "grow" their own talent and promote these individuals up through the organization. Some firms, who already have good diversity representation at the lower levels, are looking to recruit middle management talent. By bringing in talent at the mid-level, these firms want to groom these individuals to be promoted upwards in a shorter time frame where they can have a significant impact on the organization. Although there has been some emphasis on recruiting diversity at the senior levels, we have not seen significant movement at this level.

Another sign of progress is evidenced by the expansion of diversity initiatives beyond just recruiting. In the past, many financial services firms focused almost exclusively on recruiting talented women and people of color without addressing the overall career development needs of these individuals. These firms found that, after a few years, many of these diversity managers were leaving their organizations since, in some cases, they believed that they were not really accepted. As a result, most organizations now focus as much on retention issues as they do on recruiting. Internal diversity councils have been established to provide a forum for diversity employees to express their ideas and concerns to senior management. These forums have also provided a mechanism for diversity employees to network amongst themselves and develop support. In addition, many firms have established formal and informal mentoring programs for high potential diversity talent. The intent of these mentoring relationships is to help women and people of color assimilate into the corporate culture of the organization as well as to ensure that these individuals receive challenging assignments to better prepare them for future promotions.

Some financial services firms have even taken a more proactive role in forcing their external business partners to address diversity. For example, some companies have instituted supplier diversity programs to either source business from minority-owned firms or to have majority-owned firms discuss their own diversity initiatives. Financial services firms are also typically requiring the larger executive search firms to present a diverse slate of candidates on all of their executive searches.

Although there has been some positive momentum over the past ten years, the financial services industry is still viewed as lacking significant diversity. Due to the continued consolidation within the industry, we have witnessed several talented women and people of color at the senior and middle levels who have left their organizations. Due to mergers and acquisitions, many of these individuals were passed over for more significant jobs. As a result, many talented people "took a package" or just decided to leave rather than stay in their current organizations. Many of these managers have leveraged their experience and contacts to start their own businesses. In addition, as the economy weakened, women and people of color were particularly impacted in the middle management ranks. Now, as the economy improves, many companies are realizing that they have a significant void in the middle management ranks. These firms will be feverishly trying to recruit talent to fill this layer. If unsuccessful, this has significant implications long-term if many financial services firms don't have an adequate pipeline of diversity talent to be promoted to the senior ranks.

It is also important to highlight the types of positions that are held by women and people of color within some of the sectors. Many of these positions are influenced by the amount or type of client interaction individuals may have. Following are some of my personal observations based on my experience as an executive recruiter:

- **Asset Management-** In the asset management sector, women and people of color are more represented in the government and municipal areas since there is more interaction with the public sector. Women and people of color are barely represented in the corporate, mortgage, or high yield segments where the overall compensation tends to be higher. Within equities, despite some progress, there are still very few female and minority portfolio managers or equity analysts. Very few women and people of color are in leadership roles in the asset management field, unless it is a socially responsible fund.
- **Investment Banking-** Although there has been an increase in women recruited into investment banking, representation of women and people of color in all areas is still not balanced. More of the diverse talent is located in public/municipal finance. There are still very few women and minorities in corporate finance, mergers and acquisition or industry sectors which are areas with higher compensation. During the recent economic downturn, we witnessed a disproportionate exodus of diversity talent at the Vice President (or middle level). As a result, it appears that the numbers of minorities in some investment banks today are similar to the numbers achieved in the mid-1980s.
- **Private Equity/ Venture Capital-** Private equity/venture capital is another segment where there is scant representation of women and people of color. In fact, most women and minorities in this sector tend to be affiliated with women or minority-focused funds or are part of funds tied to banks, foundations or endowments. We have observed very few women or minorities in private equity funds that have a private partnership structure.
- **Wealth Management-** Wealth management is one of the most active recruiting sectors currently. Many firms are seeking top female and minority professionals to interface with "wealthy" individuals in certain segments or markets. For example, in Florida, it is important for many firms to have Hispanic/Latino wealth management professionals to tap into these "new" markets and generate new business.

Although most financial services firms have instituted corporate diversity programs, the effectiveness of these programs has been mixed. In Korn/Ferry's most recent diversity study, **Best Practices for Diversity**, we examined the effectiveness of these programs. You should have a copy of this study as part of your packet. In this study, we interviewed corporate diversity officers, senior management and senior African-American, Asian American and Latino/Hispanic executives. In general, corporate executives and minority professionals disagree on the effectiveness of these diversity programs. Executives rate corporate effectiveness much more highly than do the professionals. For example, corporate executives believe that the most effective way to recruit minority talent is by targeting minority organizations. Minority executives stated that internships are a much more effective strategy.

Another significant factor regarding the success of recruiting and retaining top diversity talent is dependent on where the diversity initiative is housed. Is the corporate diversity initiative being driven at the CEO level or is it housed in the Human Resource function? Although most CEOs in the financial services industry have diversity as one of the top corporate initiatives, very few are playing a proactive role in ensuring that diversity is truly achieved since this does impact the overall culture. The most successful organizations in addressing diversity are companies where the CEO is "passionately" committed and has instituted a diversity component as part of the bonus compensation for his/her direct reports. Several firms are now looking to drive this compensation down to the middle management ranks which is typically where the "diversity message gets clouded." This strong senior management support reinforces that diversity is a critical business objective for the Company. On the other hand, if the diversity initiative is perceived to be housed in the Human Resources function, line management may be more passive in trying to achieve corporate diversity goals.

Most of the sophisticated corporate diversity initiatives are in the larger, more global financial services firms. Mid-size firms that are national or regional (southeast, Midwest, etc.) tend not to have the same level of drive for diversity. Although diversity is important to these medium or small firms as well, the human resource function tends to play a more vital role than senior management. As a result, we have typically observed fewer women and people of color in senior or middle management roles after taking into account the smaller size of these organizations. For example, this seems to be consistent in the banking sector. However, as consolidation continues to occur, many of these firms may be acquired or merged.

In summary, it appears that the financial services industry is moving in the right direction in trying to address diversity. Although there is significant representation in the lower management ranks, the middle ranks will pose a challenge in the short-term. Representation does not appear to be widespread in the senior management ranks as well. With an improving economy, there will be more pressure on these individual firms to "retain" their current diversity talent. As corporate diversity becomes even more competitive, top diversity talent will be desirable. Since there are not significant numbers of talented women and minority in the middle and senior ranks in the financial services industry, these individuals will be aggressively recruited by numerous firms. In addition, even though there is still a discrepancy in the types of positions held by women and minorities, senior management has become more aware and is trying to address this issue. The good news is that the industry has made several significant strides over the past ten years. However, the financial services industry still has a lot of challenges and a long way to go to fully embrace diversity.

TESTIMONY OF
MARC E. LACKRITZ
PRESIDENT
SECURITIES INDUSTRY ASSOCIATION

BEFORE THE
HOUSE FINANCIAL SERVICES COMMITTEE
SUBCOMMITTEE ON OVERSIGHT & INVESTIGATIONS

"DIVERSITY IN THE FINANCIAL SERVICES INDUSTRY AND ACCESS TO CAPITAL FOR MINORITY-OWNED BUSINESSES: CHALLENGES AND OPPORTUNITIES"

JULY 15, 2004

Madam Chairwoman and members of the Subcommittee:

I am Marc Lackritz, President of the Securities Industry Association[1], and I appreciate the opportunity to testify on SIA's and our member-firms' commitment to encouraging diversity within the securities industry and the U.S. capital markets. We commend the Subcommittee for recognizing how important this topic is to the future of our economy, our markets, our industry, and our investors.

I am proud of SIA's efforts over the last decade to make the securities industry an inclusive, multicultural place to work. I am also proud of the progress our firms have made to develop diversity initiatives in the workplace and improve their marketing to diverse customers. While our efforts are clearly beginning to pay off, we recognize that more work needs to be done. We are seriously committed to creating a non-discriminatory workplace and an industry where anyone can succeed on his or her merits.

[1] The Securities Industry Association, established in 1972 through the merger of the Association of Stock Exchange Firms and the Investment Banker's Association, brings together the shared interests of nearly 600 securities firms to accomplish common goals. SIA member-firms (including investment banks, broker-dealers, and mutual fund companies) are active in all U.S. and foreign markets and in all phases of corporate and public finance. According to the Bureau of Labor Statistics, the U.S. securities industry employs 780,000 individuals. Industry personnel manage the accounts of nearly 93-million investors directly and indirectly through corporate, thrift, and pension plans. In 2003, the industry generated an estimated $209 billion in domestic revenue and $278 billion in global revenues. (More information about SIA is available on its home page: www.sia.com.).

I will focus my testimony today on several initiatives we have developed to support member-firms in their efforts to increase inclusion in the workplace. Specifically, I will discuss the results of the biennial survey we conducted in 2003 and highlight some of the most successful programs our firms have implemented. I will also touch briefly on the some of the educational and other initiatives we have undertaken to help change the culture on Wall Street.

The Business Case for Diversity: Reaching Our Clients

The face of America is changing rapidly. By the middle of this century, about half of all Americans will be "minorities." African-Americans, Asian-Americans, Hispanic-Americans, and women are just four of the many groups that will make the market increasingly diverse in the coming years. The changing demographic trends deliver a clear message: securities firms must establish and support diversity programs in the workplace and in the marketplace if they are to succeed.

A decade ago, SIA member-firms realized that cultural awareness within the global capital markets was critical to the industry's competitiveness, and that innovation, diversity, creativity, and resourcefulness were all necessary to maximize growth potential while discovering new markets. As a result, SIA formed a Diversity Committee of senior-level executives to increase industry understanding of the strong business case for building programs to develop multicultural workforces and client bases. The Committee's objective is to help shape an industry that is open to everyone; where employees are limited only by their own potential; clients' unique needs are actively served; and shareholders receive value for their investment.

Industry Survey

SIA conducts an industry-wide diversity study every two years to help our firms meet the challenges and maximize the opportunities of an increasingly diverse workforce and customer base. We began this benchmarking survey[2] – which helps track industry employment of minorities and women – in 1999 so we could keep tabs on our progress over time. Importantly, our industry experienced one of the most significant recessions ever during the 1999-2003 time period the survey covers. Given the difficult market conditions and severe cost-cutting measures our firms had to take, our progress is even more remarkable. Some of the encouraging results include:

- The percentage of women and minorities in key securities-industry management positions is increasing, especially in large firms,[3] which have all had diversity initiatives in place since at least 2001. Twenty-seven percent of those employees categorized as "executive management" are either women or minorities, as compared with 20 percent in 2001. Representation among branch managers remained consistent at 15 percent; among managing directors, it increased slightly from 17 to 20 percent.
- Thirty-three percent of the investment bankers in large firms were women or minorities, a nine-percent increase from 2001. Twenty-seven percent of traders at the large firms participating in the survey were women or minorities, compared with 23 percent in 2001. These two groups accounted for 22 percent of the brokers at the large firms (up slightly from 2001's 20 percent).
- All of the large firms have diversity training included in their employee orientation programs, as compared with 89 percent in 2001. And 92 percent of the large firms

[2] The full report is available at http://www.sia.com/diversity_resource_guide/pdf/FinalSurveyReport2003.pdf.
[3] Defined as 8,000 or more employees.

responding had formal mentoring programs in place, up from 78 percent in 2001. Some large firms have plans to add and expand their diversity efforts worldwide.

- All the mid-size firms[4] have a diversity initiative as well. A number of them are engaged in as many diversity activities as the large firms. Eighty-three percent of mid-size firms have a management-level person dedicated to diversity, and the percentage of mid-size firms incorporating diversity training, employee networks, and formal mentoring programs more than doubled from 2001 to 2003.

Almost all of SIA's large member-firms are dedicated to helping minority kids receive scholarships, summer internships, and other opportunities for advancement. Although our survey does not catalogue every initiative, we know that they are extensive and pervasive. The many positive changes that have occurred are a tribute to the efforts started more than a decade ago. Yet some of the trends indicate that we still need to make further inroads and improvements. We are dedicated to doing our best to ensure that equal opportunity is a hallmark of firms' employment.

Recognizing Outstanding Leadership

SIA's Diversity Committee began offering a "Leadership Award" in 2002 to encourage innovation in the policies and programs that firms use to attract and retain minority employees. The award honors one firm's commitment to building a strong diversity initiative that is implemented proactively. It also showcases the depth and variety of diversity programs within the securities industry. Edward Jones and Quick & Reilly were the first two recipients of this award. In addition to the ease with which the program can be replicated – a key criterion for the award – we found several elements in common that contribute to a firm's success. They include:

- Support, interest, and active engagement from senior management;

[4] Defined as 1,000-7,999 employees.

- Delegation of responsibility for diversity to target-strategy teams or dynamic task forces (rather than a diversity council or advisory board);
- Encouragement of a corporate culture that emphasizes diversity and provides training and education to employees to be sensitive and supportive of this goal;
- Networking – a critical component of the securities industry – to identify, recruit, hire, and retain women and people of color;
- Innovative programs that reach out to communities to hire people and provide support, including mentoring, throughout a new employee's first few years;
- Targeted recruiting efforts and partnerships with established organizations that support women and minorities (*e.g.,* INROADS, SEO, TOIGO, Black MBA Conference, Hispanic MBA Conference);
- Establishment of associations or networks within the company for various ethnic groups, women, and gays and lesbians.

Notwithstanding the highly competitive nature of our industry, our firms have willingly discussed the obstacles they faced in getting their initiatives off the ground. Similarly, they have shared details on the steps they have taken to turn those challenges into successes. All firms stand to benefit from a heightened awareness that the securities industry is indeed an "employer of choice" for women and people of color.

Educational Initiatives

SIA's Diversity Committee has made significant progress on the educational front. The Committee developed a Diversity Resource Guide in 1999 that provides extensive information about the numerous types of initiatives and programs undertaken by SIA member-firms in their recruitment, retention, and marketing efforts. In addition, the Committee maintains a comprehensive Web site with links to online resources, and holds quarterly teleconferences that allow human resources and diversity managers to share experiences and suggestions that helped to strengthen their own firms' initiatives.

We have also introduced diversity into the core curriculum of the Securities Industry Institute. The Securities Industry Institute – held at the Wharton School of the University of Pennsylvania – is the industry's premier development program for industry professionals. By including diversity in the core curriculum, participants will develop the necessary skills to help them become diversity champions within their own firms.

A related educational program – The Stock Market Game – makes a very valuable contribution to the work we are doing. Since its introduction in 1977, The Stock Market Game, an online investment education program, has become one of the most widely used classroom tools to teach students about the American economic system and the role of the securities industry in that system. Nearly 700,000 students in grades 4-12 participate in this engaging investment education program annually.

SIA is proud to partner with the 100 Black Men of America's New York Chapter in establishing The Stock Market Game at the newly founded Eagle Academy for young men in the South Bronx. We hope that through partnerships such as this, young people will be introduced to the many career opportunities available in the financial services industry.

Conclusion

SIA and our member-firms are committed to creating a non-discriminatory workplace where all employees can succeed on their merits. As our client base becomes increasingly diverse, we understand the importance of hiring, training, and retaining a diverse workforce to best meet our clients' needs. Although we have made significant progress in a variety of areas, we know we must do more in the years ahead. We welcome your subcommittee's input on how we can further improve our diversity programs, and we look forward to working with you to achieve that important goal.

Thank you.

Testimony of

D. Lorenzo Padron
Commissioner
Illinois Office of Banks and Real Estate

Before the
Financial Services Subcommittee
on Oversight and Investigation

United States House of Representatives
July 15, 2004

Characteristics of the Illinois Banking Industry

The banking industry in Illinois during the past 25 years has gone through a complete transformation from a "unit bank" state in 1967 to the present unlimited branching system. The Illinois constitution of 1870 prohibited branch banking, encouraging the emergence of a population of independent banks that by 1976 reached 1,225 bank holding companies. There were five large banks: the First National Bank of Chicago, Continental Illinois National Bank, the Northern Trust, Harris Bank and Talman Home Federal Services, that dominated the industry.

The liberalization of the Illinois banking laws caused a contraction in the number of bank holding companies, from 1,225 in 1976 to 864 in 1995 and an expansion in the number of branches from 233 to 1,842 during the same period. The Reigel-Neal Interstate Banking and Branching Efficiency Act of 1994 accelerated the consolidation of the banking industry in Illinois and further reduced the number of banks from 864 in 1995 to 664 in 2003. The number of branches increased from 1,842 to 3,136 during the same period. The new law also brought about increased competition from superregional banks leading to the acquisition of four of the largest Illinois banks by out-of-state bank companies. The Northern Trust is the only remaining independent bank holding company of the original group of large Illinois banks.

Personal Experiences as a Hispanic Banker in Illinois

I entered the banking industry in Chicago in February of 1977 as a Management Trainee at the First National Bank of Chicago – now Bank One/ JPMorgan. I was part of a group of management trainees that included an Asian American, and two African Americans among others. The program consisted of a succession of three-month training assignments through the different divisions of the bank and after two years, the selection of a permanent position. The practical component of the training program was complimented with classroom training (both internally organized and offered by outside sources) and the assignment of a member of the bank's senior management as a mentor. At the completion of my first year in the training program, I was allowed to select a permanent position. The division managers' committee responsible for evaluating the trainees' performance advised me that I was far more advanced than the rest of the group and that my two years of prior experience writing loan proposals and negotiating SBA loans would be applied to my credit at the program. I selected the position of Financial Services Representative in the Executive and Professional Banking Division, responsible for financing stock options for executives of large corporations. Within six months in this position, I was granted lending authority to approve secured and unsecured loans, becoming the second Hispanic with lending authority at the bank. I facilitated loans to prominent senior managers of large corporations and to several sports figures. Two years later, I was invited to join the Commercial Middle Market Lending Group, financing corporate clients and years later I moved to the International Banking Department as a Relationship Manager servicing the Latin American banking industry. While working in this last position, I was asked to take an assignment in Venezuela to help the bank restructure its Venezuelan loan portfolio. It was during this Venezuelan assignment that I met senior managers of Banco Popular of Puerto Rico, a bank client, and 5 years later, my next employer.

During my employment at the First Chicago it became evident to me that I was one of just two Hispanics in the domestic lending area of the bank and that all the senior management positions were held by a single group, white males. Minority and female employees were relegated to positions in operations, personnel, and customer service, making it extremely difficult to advance. Members of my own group of management trainees were affected by this problem. It became evident that subjective considerations other than qualifications and performance were used in promotion and compensation. My personal response to this problem was to move to the International Lending Department of the bank where the opportunities for promotion were far greater and the rate of promotion much faster.

The 1982 outcome of a class action suit filed against Harris Bank by its female employees charging discrimination in promotion and compensation woke up the First National Bank of Chicago's senior management. Management initiated an internal analysis of the bank's labor force, developed affirmative action goals and plans, and an education and sensitivity training program for its senior officers and managers. It also initiated a public relations strategy directed to enhance the bank's image in the market place. As a result of this diversity initiative, a few minority males were promoted but the bulk of the beneficiaries of these efforts were white females. To this day, the bank lacks Hispanics in among its senior management in its lending areas, in its Board of Directors and in other positions of leadership. During the past years in my capacity as the pro bono Chairman of the Latin American Chamber of Commerce (LACC), I often invited Bank One to participate in an initiative developed by the LACC and the SBA to encourage local banks to participate in the Access to Capital program for minority companies. Bank One showed no interest in participating. The announcement that the bank was being purchased by JPMorgan, which required revision of the bank's CRA record, brought a renewed interest from the bank to participate with the LACC in the SBA loan program for minority businesses.

In 1987 I joined Banco Popular of Puerto Rico, which had acquired a small bank, in the heart of the Spanish speaking population on the Chicago's North Side, where I played a significant role in the provision of capital to the growing Chicago minority business sector. In 1994 I joined the Metropolitan Bank, one of a group of eight community banks with assets in excess of $2 billion where I was responsible for directing the bank's lending activities and served on the bank's Board of Directors.

Efforts by Chicago Banks to Promote Racial, Ethnic and Gender Diversity in Senior Management and on the Boards of Directors

A comprehensive review of Chicago's banking industry reveals that the employment of Hispanic senior lenders by the five largest financial institutions have increased significantly during the past five years as compared to any other period in Illinois history. In fact, two of Chicago's largest banks have formed teams of lending officers dedicated almost exclusively to servicing the growing Hispanic business market. However, senior Hispanic officers in leading management positions (CEOs and senior executives) and board directorships are absent from these large Illinois banks. The major gains in leading management positions for Hispanics employed by the top tier banks are in the areas of operations, business development and diversity recruitment rather than management, policy making and activities central to the banks' profitability, which have changed over time. While the banking industry consolidation and competition from out-of-state banks have depleted the group of large banks headquartered in Illinois, so have these trends reduced the opportunities for minority participation in executive management in Illinois at these large banks, now based in other states.

Non-Illinois large banks with significant operations in Illinois present the same characteristics as the Illinois based large banks, except for Banco Popular whose CEO and a significant number of the leading management positions are held by Hispanics.

A somewhat different picture is observed in the community banking segment (banks with total assets between $500 million and $2 billion) where Hispanic senior lending officers occupy some leading management positions. Even in this sector there are no CEOs or Presidents but there are approximately 12 Hispanic Board Members in the top 6 banks.

One of the variables explaining the absence of Hispanics in leading management positions in the banking industry in Illinois relates to demographics. It is only during the past two decades that the Hispanic population in Illinois has experienced significant growth, which is reflected in an increasing number of junior level managers and officers in the banking industry.

Factors That Have Influenced the Banking Industry to Pursue the Hispanic Market and to Employ Hispanic Lending Officers.

The factors that have influenced the banking industry to pursue the Hispanic market and to employ Hispanic lending officers are:

1. The growth of the Hispanic population is Illinois: The Hispanic population grew 68% in Illinois during the past decade to 1,531,000 people representing 12.3% of the total Illinois population.
2. The growth in size and industry diversification of Hispanic owned companies. The Hispanic business sector experienced significant growth in terms of size and industry diversification. Based on the l997 census there are over 31,000 businesses generating almost $5 billion in annual sales.
3. Gains in political representation: the past two decades have seen the development of Hispanic political representation at all levels of government: city, county, state and federal.
4. Shift in consumer's taste and preference. In the American economy, the demand for salsa has surpassed the demand for ketchup; the demand for Corona has surpassed the demand for Heineken Beer.

5. Change in attitude among the public resulting from increased exposure to the growing Hispanic population. A leading example is the market penetration of the Hispanic food industry and the increasing presence of Hispanic ball players and coaches in major league baseball. Conversely, the assimilation of Hispanics in the American culture, especially in the second generation, has led to a greater level of comfort.

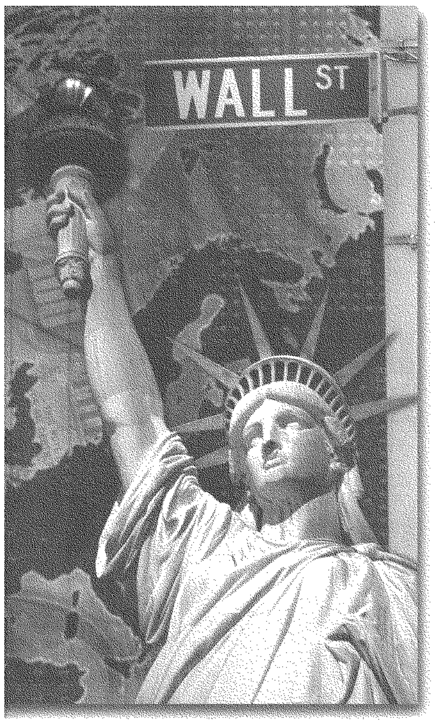
The Status of Minority Owned Financial Institutions in Illinois

An analysis of minority owned banks in the Illinois banking industry shows that the group of banks owned by Hispanics and African Americans remain in the category of Endangered Species. Increased competition from a greater number of out of state banks entering the Illinois market and the consolidation of the banking industry reduced the number of local Hispanic owned financial institutions from three to one. Banco Popular with assets in Illinois exceeding $3.5 billion is considered an out-of-state bank. There were three locally owned African American financial institutions operating in Illinois at the beginning of this year. Of these three, one was sold in the first quarter of 2004 due to poor performance, one is currently in negotiations, and the third has been struggling to survive. The eight locally owned Asian American banks operating in the state have been able to maintain their market share in spite of serious performance challenges. The stability of these banks has been supported by the strong loyalty of their core customer base.

Summary

In summary, the restrictive nature of Illinois banking laws produced a banking system that was unprepared to compete with banks operating in states with unrestricted bank branching, leading to the acquisition of the largest Chicago banks by out-of-state banks. The liberalization of the Illinois banking laws significantly reduced the number of banks operating in the state and the consolidation of the banking industry is expected to further reduce the number of banks, including minority owned financial institutions in Illinois. The progress made by the banking industry in Illinois in its efforts to promote racial, ethnic and gender diversity in senior management and on Boards of Directors have been disappointingly slow.

American Latinos in Financial Services - Phase I White Paper



New America Alliance
An American Latino Business Initiative

An assessment of the state of American Latinos in:

- ★ Investment Management Consulting
- ★ Asset Management
- ★ Private Equity
- ★ Brokerage

AMERICAN LATINOS IN FINANCIAL SERVICES – PHASE I
WHITE PAPER

OCTOBER 2003

Established in 1999, New America Alliance (NAA) is a 501(c)6 organization of American Latino business leaders united to promote the economic advancement of the American Latino community, with a focus on economic and political empowerment, and public advocacy to improve the quality of life in the United States.

NAA's mission for economic advancement is led by its Economic Capital Committee. The focus of this Committee includes increasing access to markets and capital for Latino businesses, promoting the participation and influence of American Latinos on our nation's corporate boards, expanding participation and influence of American Latinos in federal and state financial institutions, and investing in the higher education of American Latinos in the fields of business and finance.

The Capital, Private Equity and Entrepreneurship Sub-Committee of the Economic Capital Committee is the NAA vehicle used to increase the size of Latino financial services firms (including firms in investment management consulting, asset management, private equity, brokerage, and other financial sectors), promote Latino entrepreneurship, and increase the number of American Latino professionals in financial services.

For further information contact New America Alliance at (202) 772-4158 or visit www.naaonline.org.

Table of Contents

Foreword

U.S. House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

AMERICAN LATINOS IN FINANCIAL SERVICES
PART I – WHITE PAPER

Foreword:

At the behest of Rep. Charles A. Gonzalez, the New America Alliance (NAA) visited Capitol Hill in March of this year to discuss representation of Latinos in the top ranks of corporate America and access to private capital for Latino entrepreneurs. The NAA briefed Chairman Michael G. Oxley, Ranking Member Barney Frank, and other Members of the House Financial Services Committee on the strides made, and the challenges faced, by American Latinos in their efforts to enter the financial services sector.

The March meeting was the first in what has become an ongoing dialogue between the NAA and Congress. Last month, we hosted a meeting that brought together the NAA and several of the largest financial services trade associations, who share our common goal of increasing diversity in corporate America. Partly as an outgrowth of these meetings, and with the input from financial industry professionals, the NAA embarked on a process of compiling information to provide a better picture of the state of American Latinos in the financial services industry.

This White Paper represents the culmination of the NAA's important efforts. The report highlights the challenges faced by American Latinos in specific segments of the financial services industry, and identifies key constituents who can contribute to address the challenges.

All of us recognize the value of diversity in corporate America and, in particular, the important role of the private and public sectors in fostering diversity. We applaud the New America Alliance for its ongoing efforts and look forward to continuing our work in this area.

Michael G. Oxley
Chairman

Barney Frank
Ranking Member

Charles A. Gonzalez
Member of Congress

Luis Gutierrez
Member of Congress

Nydia Velazquez
Member of Congress

Rubén Hinojosa
Member of Congress

Joe Baca
Member of Congress

Ginny Brown-Waite
Member of Congress

Preface: A New Ethos

New America Alliance (NAA) is committed to promoting the economic advancement of the American Latino community. The Alliance is organized on the principle that American Latino business leaders have the responsibility to lead the process of building the forms of capital most crucial to Latino progress – economic capital, political capital, human capital and the practice of philanthropy.

In recognizing that economic prosperity is at the center of our agenda, this report marks the commencement of a *New Ethos* for American Latinos: the commitment to work together towards achieving greater participation in the financial services industry. But, before we set out to ask organizations to support our agenda, we need to ask *what we as a group can do for each other.* We have an opportunity – to lead by example and leave to our children an unheralded legacy of cooperation and support among Latino-owned firms.

We would like to take this opportunity to ask each NAA member to commit to this *New Ethos — an ethos* whereby every Latino will strive to open opportunities for Latino owned firms. This *ethos* sets the foundation for wealth-building in the American Latino community, and ensures that Latinos participate in building the economic vitality of our nation.

Moctesuma Esparza
NAA Chair of the Board

Jorge Castro
NAA Chair of Economic Capital

Maria del Pilar Avila
NAA Executive Director

Introduction

The engines of economic advancement run on free access to capital and financial markets. While increased visibility and involvement of Latinos in the social, economic and political arena is evident, participation in the financial services industry continues to lag.

This White Paper is part of an ongoing series of reports that New America Alliance will publish about the trends and issues affecting American Latinos in financial services. By studying the current realities and anticipating future conditions, these reports will seek to provide the strategic planning and the tactical decision-making elements to:

- Increase the participation of American Latino financial services firms in the management of investments at public pension funds, corporate America and the institutional investor community
- Increase access for all Latino financial services providers and
- Participate in developing future American Latino financial executives

The intent of this White Paper is to:

- Highlight challenges faced by American Latinos in the investment management consulting, asset management, private equity, and brokerage financial sectors
- Identify key constituents and agents of change who can help resolve these challenges
- Raise awareness on these issues among key agents of change and
- Support American Latino financial firms in the development and implementation of action plans that will provide them increased participation in the market.

Today, American Latinos[1] represent almost 14% of the U.S. population with 38 million individuals, representing the largest minority in the country. According to the U.S. Census Bureau, one in four Americans will be of Latino descent by the year 2050.

Of the more than 9,000 banks and thrifts in this country, only a handful is majority-owned or managed by American Latinos. There is only one investment management consulting firm, and no more than 30 asset management firms, 5 private equity funds, and 15 brokerage firms that are Latino owned. Furthermore, Latino majority-owned institutions continue to struggle to find adequate access to public and private pension funds, and minority procurement programs at major corporations have typically not included financial services. Many public pension funds have not established or have not enforced emerging financial services provider programs. These are issues that NAA is addressing.

Our challenge is to demonstrate that we can compete effectively and provide the highest quality of services. There are numerous examples of markets throughout Latin America and Puerto Rico that attest to how Latinos can successfully compete in the financial sector.

The action plans proposed in this White Paper are the collective conclusions of all the participants. The collaborative development of this White Paper demonstrates unprecedented teamwork in the Latino financial services arena. Our goal is to continue to strengthen and promote collaborative efforts, information sharing and network building.

The challenges ahead are many. Our next steps will be to develop a detailed strategic plan to implement the action plans and policies of the NAA based on Phase I findings, and to complete Phase II of this White Paper. To that effect, we have been meeting monthly with the NAA members and together we are building consensus and working together as a team.

I wish to recognize the great expert contribution and diligence of my fellow colleagues, the Task Force Leaders of Phase I - Myrna M. Rivera Cardona, Margarita Perez, Hilda Ochoa-Brillembourg, Marcos A. Rodriguez, Victor L. Maruri, Martin Cabrera, Jr., and Robert G. Rodriguez. They studied the surveys submitted in their financial sectors, lent their expertise, analyzed the information and developed their sections by capturing the most significant challenges, constituents and proposed action plans that emerged from the Phase I surveys.

I especially wish to thank the NAA Board, NAA Chair of the Board Moctesuma Esparza, Executive Director Pilar Avila, and NAA Chair of Economic Capital Jorge Castro, for their great leadership, their continued support and their valuable contributions to this project.

The creation of this report demonstrates that by working in unison we can achieve what none of us would be able to accomplish on our own.

It has been an honor and a great pleasure to lead this team effort, and I hope that the hard work of all those who participated in this process will translate into greater access and participation of American Latinos in the financial services industry today and moreover, in helping shape the financial services industry of the future.

Monika Mantilla Garcia
Project Director, White Paper: American Latinos in Financial Services
NAA Co-Chair, Capital and Private Equity Sub-Committee

[1] The term "American Latino" refers to individuals of Latino descent residing in the United States and it is used interchangeably with the term "Latino."

White Paper Structure and Methodology

Phase I presented in this document covers the following financial services areas:

- Investment management consulting
- Asset management
- Private equity funds
- Brokerage

The process included a data collection phase where an extensive survey was conducted (see appendix B) of the New America Alliance membership in financial services including 35 firms, one association and two non-profit organizations. Following the collection of surveys, Task Force leaders were appointed to each financial service sector. Task Force leaders developed an industry description, analyzed the surveys from their financial services fields and consolidated them into a written format that serves as the foundation of this White Paper.

As of today, and under the leadership of Project Director and Capital Committee Co-Chair Monika Mantilla Garcia, 62 individuals (including financial services and non-profit leaders, other professionals and MBA students) and 40 organizations have come together to unite their minds, to share experiences and major challenges, to identify key constituents, and to propose action plans to achieve increased market participation.

Phase II will entail completion of the data collection and analysis for the remaining six financial services fields:

- Accounting
- Commercial banking
- Investment bank and securities distribution
- Real estate investments
- Retail financial services
- Think tank, Latino economic mobility

Section I: Investment Management Consulting

Task Force Leader: Myrna M. Rivera Cardona, Consultiva Internacional, Inc.

Sector Description

An investment management consultant is a firm or individual specialized in facilitating decision making on a variety of issues pertaining to the investment of a pool of assets, such as:

- Determining a portfolio's appropriate growth requirements
- Identifying the risks inherent in pursuing such growth and the methods by which such risk should be managed

The client is typically a board of trustees or an individual with the fiduciary responsibility to conduct such decision making in the best interest of beneficiaries, while defraying costs, and with the care, skill, prudence and diligence of an expert. Such clients include public and corporate pension funds, endowments, foundations, insurance companies, unions and individuals.

According to Nelson[2], there are 185 investment management consulting firms providing traditional services to pension funds in the United States and 1,491 plan sponsors with assets of $100 million or more. Nearly 500 sponsors are public funds, of which nearly 80 percent employ the services of investment consultants. Investment management consulting is approximately a billion dollar business, with over $150 million in revenues derived solely from public funds.

Often referred to as the "gatekeepers" and lead advisors to a board, investment management consultants are the "architects" in the financial services space, relating to portfolio managers, broker/dealer firms and custodians in much the same way that skilled architects relate to contractors, craftsmen, suppliers and manufacturers.

Boards and private investors will hire investment management consultants because they provide cost-effective access to expertise not available within their organization. Such expertise may include:

- Experience
- Technology
- Research
- Access to information and best practices
- Continuity and institutional memory

Typical procedures facilitated by investment management consultants include:

- Determining investment objectives
- Setting asset allocation
- Designing investment policies and guidelines
- Evaluating and selecting investment managers and custodians
- Facilitating manager transitions
- Continually monitoring performance against objectives, market benchmarks and established polices and guidelines

Investment management consultants can be hired either as a "full-service" or on a project basis.

Challenges

Challenge #1: Minimal Participation of Latinos in the Industry

As the perceived gatekeepers in fund management, consultants are the front-line of communication between the board and other investment professionals - custodians, investment managers, broker/dealers and investment bankers. As such, credibility and integrity are essential. For this reason, it is imperative to consolidate and support Latino owned investment management consultants with the appropriate credentials and capabilities. Once Latino investment management consultants are in place, they can become the bridge between institutional investors and Latino asset managers and broker/dealers.

American Latino presence in the consulting industry has been minimal in the continental United States. Only one firm is known to be Latino-owned, Consultiva Internacional, Inc., which emerged from the spin-off of a self-funded practice inside a broker-affiliated consulting division of a major U.S. firm.

Challenge #2: Access

Consulting is a business based on relationships. While technology and process are key components, a successful consulting relationship hinges on the person. Consultants must be able to establish credibility and trust at the management and board decision-making levels.

The principal challenge for any Latino consulting firm is ACCESS. This challenge impacts Latino firms in three ways:

[2] Nelson Information's 2001 Pension Fund Consultant Survey.

Perception is Reality:

a. American Latinos are not viewed as value-added providers of investment services, largely because Latino talent in this field is not clearly evident.

Investment management consulting is not part of the diversity initiatives:

a. Few Latinos are hired inside the investment department.
b. Few Latinos are appointed to boards of trustees, even when constituency merits presence.
c. Few concrete mandates and hiring standards are in place for hiring minority advisors.
d. Few "special" and "emerging managers" programs exist at large public pension funds. These special programs are vehicles used by public pension funds to ensure that new and/or minority managers have a chance to prove their capabilities and to introduce diversity in the management of funds. This is an area where Latino consultants can add much value because they have the dedication and the willingness to conduct due diligence, monitor and nurture emerging firms, a task that many times a large consultant is not willing to do.

Overcoming embedded relationships:

a. Traditionally in the hands of a closed inner circle of large firms, these embedded relationships underscore the slow inroads American Latinos are making to impact the old and embedded relationships that dominate pension boards and executive management.

Key Constituents/Agents of Change

Public Funds

The key agents of change are the governing bodies: elected officials, appointed officials, and appointed trustees. The key participant in the dialogue for hiring consultants is the board of trustees. In the case of public funds, trustees often serve by official appointment. Often the hiring of consultants goes through a confirmation process through the state legislature. Where there is a union involved, the board composition might include management and labor representation.

Corporations

Depending on the governance structure, the decision makers in corporations are the CEO, the CFO, the CIO and perhaps, the board.

Action Plan

1. Public, quasi-public and corporate pension funds should use Latino investment management consultants to establish or increase policies and special programs for minority and emerging managers. By creating these programs, many of the access challenges that Latino asset managers and broker dealers face can be resolved.
2. Public, quasi-public and corporate pension funds should consider creating special staff positions to promote emerging minority/Latino participation in the investment department.
3. Legislators need to determine **where** the assets of the Latino community are, **how** they are managed, and **what** the governance is around those decisions. Once they gather this information, in each one of the States, they will have the instruments to introduce or enforce diversity initiatives. Latino investment management consultants can become a key source of education, training and preparation for new Latino fiduciaries and legislators. To collect this information, we suggest that state legislators, especially those in states with the largest Latino populations, conduct a study or a series of hearings at the state level. Specific suggested questions are:

Demographics

- How many public funds are there in the state, county, city retirement systems and public welfare funds?
- How many participants are Latinos?
- How many Latinos are in the district?
- How much of the tax base of the district is derived from Latino families and individuals?

Governance

- Does a governing body exist at the state level that regulates or is there a fiscal agent for all public funds in your state?
- What size assets do these funds have?
- How many trustees are there? How were they appointed?
- Who chairs?
- Who is the CIO? How was he/she appointed or elected?
- What is the governance surrounding tenure?

Asset/Liability Management Structure

- Does the fund have a consultant? Who is the consultant?
- Who are the investment managers?
- Who is the custodian?
- Is there a commission recapture program in place?
- Can they provide a copy of the investment policy?
- Can they provide a recent actuarial report?

Diversity Initiatives

- What diversity, minority, and Latino initiatives or mandates are presently in place?
- How are they implemented? Who advises on implementation and monitoring?
- Who monitors the process? How do you measure success?

Section II: Asset Management

Task Force Leaders:
Margarita Perez, Fortaleza Asset Management, Inc.
Hilda Ochoa-Brillembourg, Strategic Investment Group

Sector Description

Asset management is the process of managing money with the objective of producing a desired return over a given time horizon. Worldwide, the asset management industry represents approximately $20.4 trillion of which $13.2 trillion, or 65 percent, represents institutional assets. The U.S. portion of tax-exempt institutional assets represents $7.2 trillion[3]. Growth in assets is driven by two variables: 1) total return from investing the assets, and 2) new contributions. For most of the decade of the '90s, growth came from investment returns. This growth afforded investors rich and often over-funded plans. In the current decade, the markets have not been as friendly and institutional plan sponsors have had to resume making contributions to their pension plans.

Unfortunately, this coincides with an economic environment that already is under duress and revenue-challenged. As a result, much attention is being redirected back to the oversight and management of these asset pools, heightening the importance of prudent fiduciary governance and expertise.

This overview will focus on the institutional assets, i.e., those sponsored by government, public organizations, corporations, unions, and others. In particular, the emphasis will be on pension assets. The sponsoring entities are often referred to as "plan sponsors" and their pools of assets called "plans."

Usually, the asset management process begins with an asset/liability study to assess the plan's specific situation. Many factors are considered in such a study including risk tolerance, the demographics of beneficiaries, the plan's assets and liabilities, regulatory constraints and tax issues. The study will provide an expected total return on assets that is deemed necessary in order to meet the pension liabilities. Next, an investment policy statement that delineates the plan's return objectives and risk tolerance is created. Further, an asset allocation appropriate to meet the plan's return requirements is devised. A typical asset allocation mix will include stocks, bonds, real estate, and alternative investments such as hedge funds and venture capital. Not only will the asset classes be outlined, but also tolerated ranges of exposure and benchmarks for evaluation. A study of the largest U.S. pension funds reveals an average asset mix which generally favors stocks over bonds and bonds over alternative investments.

Once the investment policy statement is completed and the asset allocation mix defined, the next step is to determine the strategies to implement the allocation and select the managers to execute it. The number of strategies available is vast, but for simplicity they include considerations such as:

- Active vs. passive
- Value vs. growth
- Large capitalization vs. small capitalization
- U.S. vs. international
- Government bonds vs. corporate bonds
- Developed markets vs. emerging markets

An active management approach should be based on informed and independent judgment. It is generally more focused on specific niches in the market where there are perceived inefficiencies, such as small capitalization stocks, high yield bonds, international equity and various forms of alternative investments. Passive management is often employed where there is deemed less opportunity to add value, or where the asset pools are so large there is concern regarding capacity in active management.

Investment managers are selected based upon their expertise in the respective strategies. Selection is based upon both qualitative and quantitative criteria, either of which can drive success or failure – so both are important.

There is a large number of investment management firms, some quote as many as 5,000. Thus, the manager selection process is data and labor intensive, and it is as much an art as it is a science. Active investment managers charge higher fees than passive investment managers. Theoretically, this higher fee is in exchange for higher returns. Similar to the trade-off between risk and return—greater risk should yield higher returns; there also exists a trade-off between total expected returns and management fees.

Lastly, another dimension for the plan sponsor to consider is whether the assets should be managed internally or outsourced to external investment managers. Generally, only the larger plans can afford to have in-house investment professionals to manage the plan's assets. Large plans with a meaningful allocation to passive investing may actually find it less costly to manage their assets in-house.

These decisions are generally the result of a consen-

[3] Pensions & Investments Largest U. S. Money Managers, 26 May 2003.

sus of the governing board and/or a fiduciary. In the case of public funds, the board generally consists of five to ten trustees. A high-ranking public official such as a governor, mayor, or county president appoints a certain number of these trustees. In corporations, there is an investment committee that is headed by a member of the corporate board of directors, such as the chief financial officer or treasurer. This investment committee or board of trustees is the ultimate fiduciary or "prudent expert" entrusted with the plan assets. These experts ensure that the assets are managed prudently for the benefit of the plan beneficiaries.

These groups of fiduciaries may or may not utilize the services of a pension consultant. Consultants may be retained to assist in all matters, or they may be retained solely for projects. Used by approximately 60-70 percent of the institutional plan sponsors in the U.S., consultants play an important role in supporting the boards of trustees and investment committees. Consultants offer helpful advice; however, they are not fiduciaries and therefore are not accountable to the plan participants. Consequently, fiduciaries must take great care in assuming personal responsibility for understanding proper governance and the asset management industry. Investment management consultants can play a key educational role in helping fiduciaries understand their roles and responsibilities.

Challenges

The surveys of American Latinos in the asset management industry provide an interesting picture of the challenges faced by Latino money managers across the U.S. The individuals interviewed for the survey, some employed by large institutions but most of them entrepreneurs, represent a wide spectrum of asset management firms. All in all, they provided interesting insights into the challenges they face and offered their opinions regarding how to break down some barriers.

Challenge #1: Size

Among the various challenges cited, size is the most critical issue. For a manager to be considered a viable player in the $7.2 trillion institutional (tax-exempt) fund arena, size- in terms of assets under management- is crucial. What constitutes a viable player? The consensus is a minimum base of assets under management of $250 million to $300 million. However, such an asset base may not satisfy the biggest pension plans such as California Public Employees' Retirement System (CalPERS) and New York State Common. Such large plan sponsors prefer to have a "manageable" number of investment managers and place large amounts of monies with their chosen managers.

A smaller asset manager presents the question of how big the allocation should be, particularly when most plan sponsors prefer not to represent more than 20-25 percent of a firm's assets under management. Regardless of whether or not the minority or women-owned firms achieve critical mass, size will continue to be an issue when competing against mega-size peers that have assets ranging from $10 billion to over $500 billion. In fact, the top 100 U.S. money managers control about 83 percent of the $7.2 trillion in U.S. institutional tax-exempt assets, with the top 20 firms alone controlling 48 percent. These mega-size firms are formidable competitors with deep financial resources, large marketing departments, multiple product offerings and, quite often, significant political clout.

In addition, within the minority and women-owned asset management firms, there are a handful of firms that have achieved the mega-size status making them more "palatable" to the larger plan sponsors. These mega-size firms have an edge and, consequently, will continue to grow larger in size.

Challenge #2: Consultants

Consultants, who play a critical role in the asset management industry, are the second most cited barrier to entry into the institutional pension fund arena. Sixty to seventy percent of institutional pension funds use consultants in various roles, such as educator, advisor (in relation to asset mix), and manager of the selection process of asset management firms. Consulting firms have also become large institutions themselves. Therefore, size again becomes an issue for the smaller asset managers with limited marketing budgets.

Even for asset management firms that have broken the size barrier, the fact that consultants tend to give an unfair advantage to firms they have worked with in the past presents a challenge. In addition, consultants tend to focus on the firms that have a longer track record (more than five years), and as a result new entrants into the asset management industry face this additional challenge. Moreover, some survey participants felt that there seems to be a level of prejudice against minority managers in the consultant community. This means that unless instructed to do so, consultants will not willingly meet with minority managers.

Challenge #3: Access to Key Decision Makers

The third most often cited challenge is access to key decision makers, whether it is a corporate or public fund. In the corporate arena, there seems to be less sensitivity for diversity among providers of financial services, even within firms that have a publicly stated diversity policy. Public funds have a better track record of working with minorities. It is of the utmost importance that consultants understand and share their clients' interest in working with emerging managers.

Key Constituents/Agents of Change

Corporations
In corporate America, more often than not, there is an investment committee structure with at least one member who is a senior corporate officer, such as the chief financial officer or treasurer.

Public State, County and City Funds
Almost all the public funds are governed by a board of trustees and have an executive director who reports to the board. The make-up of that board is often controlled by a high-ranking government official, by labor, management, or all of the above. The way public pension funds are governed has an impact on investment strategies and how assets are invested.

Foundations, Endowments and Union Funds
These funds also represent a large pool of assets and have been difficult for minority and women-owned firms to penetrate.

Among all these constituents, there is one common element – the consultant. As stated earlier, 60-70 percent of institutions use them and, often times, as the first line of defense or gatekeeper.

Action Plan

1. Increase awareness

There is a need for American Latino representation in the management of pension fund assets. Fewer than twenty Latino asset managers were identified during this survey. The aggregate assets under management for these firms amount to approximately $28.8 billion, which is less than a half percent of the $7.2 trillion in U.S. institutional tax-exempt assets. Furthermore, only one Latino firm was identified in the top 100 U.S. asset managers. State and local legislators throughout the country must be made aware of this deficiency, particularly those states with a large American Latino population.

Legislators can influence favorable policies not only within their respective public funds but also in the private sector. The reach of the legislator goes beyond the public fund level since many corporations seek favorable legislation and/or business within the states they reside. This presents an opportunity for legislators to encourage corporations to apply the same best practices they currently use for procurement to the asset management of their pension plan.

2. Suggestions for legislators with regard to hearings

Hearings were the most cited action plan for legislators. Executive directors, trustees, and consultants should be invited to hearings.

Questions to ask:

- What is the level of participation of minority and women-owned firms in their respective fund? How many are Latino?
- How much does each of these firms manage and what percent of the total pension fund does it represent? What is the percentage managed by Latino firms?
- What is the total amount of fees being paid for asset management? Is the fee structure used to pay minority and women-owned firms the same as the fee structure used to pay the larger and established firms? What percent of fees goes to minority and women-owned firms?
- Who are the trustees or members of the investment committee? Is there Latino representation?
- Who is the consultant? What has been the consultant's track record relative to inclusion of minority and women-owned firms?

Once the hearings are conducted, public funds should be given specific guidelines that should facilitate the inclusion of Latino firms in the asset management teams. In recent years, pension funds, such as CalPERS and the Ohio Bureau of Workmen's Compensation (BWC), have established programs focused on doing more business with minority and women-owned firms as well as with other small or developing asset management firms. These programs have been successful and, in the case of Ohio BWC, a study has been published which attests to the success of the program with no compromise in investment results. Other states need to become aware of these efforts and implement more of these programs as well.

3. Appoint More American Latino Trustees

There is a need to increase Latino representation on the boards of trustees of the various public pension funds. The same is true at the executive director level. Legislators do have control over some of the appointments and should exercise that control.

4. Conduct Annual Reviews

Public funds, as well as corporations, should be held accountable for how they invest pension assets for their employees. At a minimum, funds should report on an annual basis the progress they have made to include Latino asset managers as part of their diversity efforts.

In closing this chapter, let us state that the asset management industry provides both opportunities and challenges for existing participants and new entrants. The size of the industry is large—over $20 trillion worldwide and $7 trillion in U.S. tax-exempt institutional assets— but the monies are concentrated in the hands of a few firms. From the fewer than twenty Latino asset managers identified during this survey, only one Latino-owned firm has penetrated the Top 100 List of U.S. Asset Managers. This highlights the need for more Latino representation in the asset management industry and most importantly, the need for existing Latino firms to achieve critical mass. State and local legislators can serve as key agents of change, conducting hearings among the constituents, including consultants, and developing action plans.

New America Alliance can also serve as a key agent for change. In addition to working with state and local legislators to raise awareness of these issues, it can play a major role in educating pension boards and making them aware of Latino firms. New America Alliance can also serve as a conduit for asset managers to the corporate CEOs who have great impact on the diversity of their pension plans.

Section III: Private Equity

Task Force Leaders:
Marcos A. Rodríguez, Palladium Equity Partners, LLC
Victor L. Maruri, Hispania Capital Partners, LLC

Sector Description

Private equity describes a broad range of venture capital investment activities undertaken by institutional and private investors. It may involve the provision of venture capital to start-up companies or businesses as well as buyouts.

The private equity market has experienced unprecedented growth during the past decade. At the beginning of 1991, private equity firms raised just $8 billion from individual and institutional investors. By 2000, private equity firms succeeded in raising more than twenty times that amount, $180 billion, on the strength of double-digit investment returns through much of the decade. However, the recent decline in the overall economy and lower transaction volume has made capital difficult to deploy. The private equity industry overall has suffered over the last five years as the public equity markets retrenched. Many large pension funds have decreased their allocation to private equity and/or the number of managers they work with. This dynamic has negatively impacted fundraising as evidenced by the development of new funds in 2001 of only $82 billion and 2002 new funds of only $31 billion.

The companies that private equity firms finance span the spectrum of technologies from cutting-edge medical and Internet start-ups to established old-line manufacturing companies. They include service companies such as retail stores, health care management companies, money management firms and similar businesses. The common denominators are sophisticated financial investors, highly motivated owner-managers, and the opportunity for both to earn exceptional investment returns.

Types of Private Equity Investments

Leveraged Buyouts

Leveraged buyout (LBO) firms specialize in helping entrepreneurs finance the purchase of established companies. The approach of such firms is to provide a management team with enough equity to make a small down payment on the purchase of a business, and then to pay the rest of the purchase price with a loan. The assets of the company are used as collateral for the loan, and the cash flow of the company is used to make interest payments and pay off the debt. Today, to earn an attractive return on their investment LBO firms must build value in the companies they acquire. Typically, they do this by improving the acquired company's profitability, growing the acquired company's sales, purchasing related businesses and combining the pieces to make a bigger company, or some combination of these techniques.

Venture Capital

Risk capital for starting, expanding and acquiring companies is critical for any economy to grow. During most of the history of the United States, the market for arranging such financing was fairly informal, relying primarily on the resources of wealthy families. After World War II, the system started to change. Specialized investment management firms were formed with the specific purpose of financing start-up companies launched by entrepreneurs. Today, an estimated 900 venture capital firms in the United States raise outside capital from individual and institutional investors to finance their activities. Most are quite specialized, often investing in a single field, such as telecommunications or health care, and often only in one part of the country, such as the San Francisco Bay area. Venture capital firms also tend to specialize by stage of investing.

The advent of the Internet as a new medium for personal use, business communications and commerce created an avalanche of opportunities for venture capitalists in the mid- and late-1990s. As a result, the industry has experienced extraordinary growth in the past few years, both in the number of firms and in the amount of capital they have raised. In 2000, for example, 636 venture firms raised $106.2 billion for new investments, a 73 percent increase from the $61 billion raised the year before. Given the unfortunate experience with Internet investing, the number of firms and the amount of venture capital raised has significantly declined. In 2002, only 145 firms managed to raise $8 billion in new capital— less than 10% of new funds raised in 2000.

Mezzanine Debt

Mezzanine debt provides a middle level of financing in leveraged buyouts — below any loans obtained from commercial banks and above the equity investor. A typical mezzanine investment includes a loan to the borrower, in addition to the borrower's issuance of equity in the form of warrants, common stock, preferred stock, or some other equity instrument. Mezzanine investments have been used extensively to help fund the purchase and recapitalization of private, middle-market companies.

Fund-of-Funds

For many reasons, investing directly in private equity funds can be difficult — particularly for individual investors and small institutional investors. Information about the performance of private equity managers is hard to obtain. Gaining access to what are perceived to be the top-performing venture capital and LBO funds is problematic, since the fund managers often have more demand for their funds than they can accommodate. Finally, the relatively high investment minimums that fund managers generally require – $20 million is not uncommon for a large LBO fund — make it challenging for a small institutional or high-net-worth investor to gain sufficient diversification.

For these reasons, private equity fund-of-funds have grown rapidly in popularity during the past few years. The fund-of-funds manager aggregates the investments of many small investors into a single pool, and then uses it to assemble a portfolio of private equity funds.

Latino Presence in Private Equity

New America Alliance conducted a survey of five Latino-owned equity firms of which three are actively investing. All six manage LBO firms based in the U.S. We estimate that Latino-owned private equity firms have aggregate available capital for investments of less than $500 million, thereby controlling less than 0.5% of the funds available for investments in the buyout industry and less than 0.2% of the funds available for investments across private equity overall (see chart below). We could not identify any Latino-owned private equity firms managing a fund larger than $250 million. Based on this information, as a group, Latino-owned firms are grossly underrepresented in private equity sector and appear to be significantly underfunded.

Funds Size	Overall # of Funds	Latino-Owner/Run Number	%
> $1bn	70	0	0
$500-1bn	49	0	0
$100-$500mm	105	<5	<5%
Total - # of funds	224	<5	<2.5%
Total - Capital Available	$122bn	<$500mm	<0.5%

Source: SDC Private Equity Study and NAA Private Equity Survey

Challenges

Challenge #1: Raising Capital

The biggest challenge for Latinos in private equity remains raising capital. Institutional investors and their advisors demand a series of criteria/requirements of fund managers, some of which represent significant barriers for Latinos.

Such criteria include a proven track record. To have a proven track record, a manager must have invested and realized a return on fund investments with top quartile performance when compared to peers. This is generally a 5-10 year process that involves:

- A cohesive team that has a demonstrated history of working and investing together
- A significant contribution of capital (1-5%) by the fund managers. For example, a 5% capital contribution to a $200 million fund represents $10 million of personal investments by the fund managers.
- A valid, defensible investment thesis and the ability to source investment deals. This factor can influence Latino managers to define/limit their strategy or fund size resulting in small and/or regionally focused funds.

Few Latino private equity managers meet all the requirements established by institutional fund managers and their advisors. In addition, the role and influence that gatekeepers have as advisors to pension funds has increased, making it even more difficult for Latinos to break through. Most pension fund consultants and other advisors to the private equity industry are privately owned partnerships with negligible Latino participation.

To raise capital in private equity and build firms with sufficient scale Latinos will need explicit help from the state and other public pension funds. This assistance should come in the form of dedicated programs such as the ones developed by California Public Employees' Retirement System (CalPERS) or California State Teachers Retirement System (CalSTERS) that attempt to compensate for emerging managers' relative lack of relationships among sources of capital in the industry such as banks, insurance companies, endowments, private pension funds, and others which provide more than 50% of the total capital in private equity. Other than Community Reinvestment Act programs run by banks, most non-public pension funds currently have little incentive to promote Latinos in private equity.

Challenge #2: Performance/Perception

The second challenge for Latinos in private equity is that the market does not generally perceive of them as capable of investing their funds wisely, generating attractive returns and being value-added investors.

A possible reason for this unfavorable perception about minority performance may be the relatively less successful performance of the early (pre-1990) Small Business Administration (SBA) programs. The historical performance has made it more difficult for minority firms to raise funds, compete for deals and attract talented management teams. While there is no data available specifically on the performance of Latino-run private equity funds, there is a perception in the market that investing in minority-run funds is only a social responsibility endeavor.

However, according to a recent study by the Kaufmann Foundation, minority-run venture capital firms have generated 24% annual average return versus 20% for the comparable benchmark of the overall market. Clearly, minority-run firms offer more than a socially responsible outlet for investing.

Challenge #3: Training and Promoting the Next Generation

Perhaps the most striking issue facing Latinos in private equity is not the current lack of Latino-owned funds and managers, but the lack of representation by Latinos as principals in other funds or as investment professionals overall. There is a thin pipeline in place to produce the new generation of Latino private equity fund managers. Eighty-two percent of the fund managers across the industry are privately owned, relatively small partnerships which are generally tightly controlled by the founding partners/team and may not have interest in promoting Latinos. Private equity is one of the few remaining bastions of the "private club" mentality in the United States. Latino private equity managers need to work together to ensure that the current and future generation of private equity managers succeed.

Key Constituents/Agents of Change

Investment Community: Pension Funds

Of paramount importance, is to outreach to the investment community that understands the value added of collaborating with Latino-owned firms, given the growing significance of the American Latino market.
While the private equity sector depends on public and quasi-public pension funds for over 50 percent of its capital, the industry answers to no one regarding equal representation, equal opportunities and the promotion of women or minorities of any type, including Latinos. We believe that public pension funds have a role in changing this lack of accountability.

Action Plan

1. Access to Capital

- Public and quasi-public pension funds need to increase allocations to emerging fund managers by creating special programs to fund them. Pension fund managers should not rely exclusively on consultants to identify Latino managers. Emerging managers should get a full and appropriate hearing. Pension funds should consider creating staff positions to provide more opportunities for underrepresented groups to advance.
- When funding, contribute appropriate amounts (existing Latino-run firms appear to be generally small and under funded).
- Increase general awareness of the lack of Latino managers/funds as compared to demographics by working with New America Alliance, legislators and media.

2. Performance/Perception

- Improve perception of Latino managers by highlighting successes, publicizing Kaufmann study and funding other studies. Create an industry group of Latino fund managers. Increase visibility of larger Latino private equity funds.
- Latino private equity managers should work together to ensure success and pave the way for future generations.

3. Training/Education

- Promote Latino participation in all ranks in the private equity industry. Pension funds and advisors should make it a checklist question for private equity managers. Also, generate better data on young Latinos in the industry (vs. general population) to highlight the gap.
- Promote the education and integration of Latinos into the private equity industry through education and mentoring networks such as The Robert Toigo Foundation, Sponsors for Educational Opportunity and others.

Section IV: Brokerage

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Sector Description

Many securities firms serve as both brokers and dealers in the market. A broker is an agent who buys and sells securities–stocks and bonds–on behalf of a client for a commission or fee. A dealer is a principal firm that buys and sells from its own account with the intention of making a profit.

Firms that serve as broker/dealers typically have a headquarters office supported by numerous branch offices. The branch offices sell and market the company's services, while the main office handles administrative activities, research, and product development. Depending on the type and extent of services offered beyond brokerage and dealing activities, securities firms fall into one of several categories:

- Investment banking firms, such as Goldman Sachs, have divisions within their companies that primarily act as broker/dealers to provide institutional customers with services related to underwriting new securities issues as well as mergers and acquisitions. These firms help customers structure and market their respective securities issues.
- Full-service trading firms, such as Salomon Smith Barney, have divisions within their companies that primarily act as broker-dealers to provide institutional and retail customers with services related to the buying and selling of securities. These firms typically offer customers specialized focus in trading particular securities and research regarding securities or sectors in the economy.
- Discount trading firms act as broker/dealers to allow institutional and retail customers to buy and sell securities for less than they would have to pay to full-service trading firms. Because discount trading firms usually do not offer investment advice, have sales staffs, or act as marketers for financial products, they are able to charge lower commissions.
- Full-service firms act as broker/dealers to offer both investment banking and trading services to retail and institutional clients.
- National full-service firms, such as Merrill Lynch and UBS Financial Services, provide a range of financial services for both retail and institutional customers nationwide.
- Regional full-service firms provide a range of financial services for both retail and institutional customers within a particular geographic area (i.e., Robert W. Baird, Wachovia First Securities, and Alex Brown).

All these firms compete in the public pension fund arena in top markets including California, Texas, Illinois, New York, Florida and New Mexico which represent $1 trillion in funds. Firms compete for a share of the estimated $5 billion in annual fees generated each year. Of this total, brokerage fees are roughly $1.5 billion.

The following chart explains the make up of a public pension fund in which broker/dealer solicit business:

Exectutive Director, Chief Investment Officer, Administrative Staff, etc.

↓

Board of Trustees

↓

Consulting Firm
(GATEKEEPERS)
Recommends to the hiring and firing of Managers

↓

Asset Managers
Charges Pension Fund Average Fee = 0.004% of Managed Assets

↓

Brokerage Firms
Charges Asset Managers $0.05 per share commissions

↓

Stock Exchanges
Charges Brokerage firms to execute

Broker/dealers have three major functions when working with pension funds:

1. Pricing stocks, bonds, and other securities on different exchanges to assure best execution
2. Providing liquidity in the markets, which allows brokers and dealers to buy and sell securities for investors as efficiently as possible
3. Providing advice about market activity as well as conducting research

Challenges

Challenge #1: Access to the Capital Markets

The level of capitalization of broker/dealer firms is one of the most profound requirements that pension funds and asset managers consider. There is no standard process for initial approval from a pension fund. The long approval cycle can take anywhere from six months to four years. Once a firm is approved, then it is provided a list of asset managers to call on and market the brokerage firm's capabilities. Once a brokerage firm communicates with an asset management firm, it has to go through the same, if not more stringent, application process with each asset management firm. This process can take up to three years.

Most asset managers will include Latino broker/dealers only when directed to do so by their client, the pension fund. There is inconsistency in providing opportunity to Latino firms given that there is:

1. No set process for approval
2. Repetitive application process
3. Lack of support from some pension fund staff
4. Absence of a follow-up due diligence process once broker/dealers are indeed approved

Challenge #2: Artificial barriers to entry

There are several artificial barriers to entry, but the participants in the study felt that the barriers mentioned below are the most relevant. There are current minority participation policies in place for various pension funds across the country. Unfortunately, there is little enforcement and oversight of the policies.

Latino participation in the public pension fund arena has been at a .005% level at best. Minority programs may be considered successful even though they may not reflect Latino participation.

Many plan sponsors, pension fund staff, and consultants may use fiduciary responsibility as a reason to exclude minority firms and avoid enforcing minority participation goals. Yet, there have been studies by different plan sponsors and universities that clearly state that pension plan returns and performance are not compromised by including minority firms.

Another false perception held by asset managers is that minority firms cannot provide best execution. There is a need to identify and use existing analysis reports that ensure that brokerage firms are providing the best execution for their clients. Some of the measurement tools are: Volume Weighted Average Price (VWAP), Open Value for the Benchmark Date, and Sell Bid/Buy Ask Benchmark.

Challenge #3: Other Barriers - Infrastructure Requests

Finally, brokerage firms are sometimes asked to adopt costly new trading equipment to suit individual asset manager needs, without ensuring corresponding order flow to the brokerage firms. Some asset management firms seek value-added research capability or trading platforms that certain broker/dealers do not have. Hence, once again, order flow does not occur even if a company does not provide research capabilities.

Key Constituents/Agents of Change

Gaining access to key decision makers is one of the major challenges for minority firms. There are four different levels of decision makers in the pension fund process:

- Executive directors, chief investment officers, and staff
- Board of trustees
- Consultants
- Asset managers

Executive directors, chief investment officers, and staff must give consultants and asset managers more direction and guidance regarding minority policies.

Boards of trustees need to be more proactive in directing the consultants in locating Latino asset managers and broker/dealers. Executive directors, CIO's, staff and trustees must be encouraged to keep an open door policy toward minority firms. Trustees should gather feedback on the fund's policies from broker/dealer and asset management firms. Broker dealers are on the front lines everyday and can provide valuable information. Asset managers would be more effective in following minority policies if there was clear direction from the pension fund staff and if legislation was enforced. Active executive directors, staff and trustees should keep these issues at the forefront of their agendas.

Action Plan

The issue of Latino participation in public and private pension funds is being debated across the country. State public pension funds encompass wealth and power, and Latinos have been locked out of the process. The Latino broker/dealer industry is faced with many challenges, but none that cannot be overcome with a united effort and support from legislators, pension fund executives, trustees, and consultants.

American Latino broker/dealers seek the opportunity to participate and demonstrate their capabilities in the market place. Once given the opportunity to perform, it will be clearly demonstrated that our capability for execution does not jeopardize, but actually can increase, the overall fund performance. The following action plan details the different approaches to addressing and overcoming barriers faced by the broker dealer sector.

1. Legislators can conduct hearings on pension funds to review all goals and participation procedures with executive directors, staff, trustees, consultants and asset managers

2. Legislators can study and pass legislation to encourage pension funds to increase minority participation

3. New America Alliance should continue to increase awareness about the dismal Latino participation levels; the most effective solution might be legislation with enforcement in each state. Legislators represent hundreds of thousands of beneficiaries for each of the pension funds in their districts. For example, the Illinois Teachers Retirement Fund has 159,000 active employees and 172,000 retired employees, a total of 331,000 beneficiaries which are the legislators constituents

4. Enforce goals and legislation with consequences of termination for non-compliance (in many states there are laws on the books, but no enforcement of policies)

5. Encourage the appointment of American Latinos to board positions

6. Latino legislators should write letters and place phone calls to pension fund decision makers

7. Identifying Latino consultants who are familiar with asset managers, broker/dealers, and private equity firms

Conclusion

New America Alliance recognizes that the lack of participation by American Latinos in the financial services industry presents a crisis because the finance industry functions as a significant capital distributor in society. Therefore, this industry plays a key role in the generation of wealth opportunities for American Latinos.

The process that led to the creation of this White Paper has occurred simultaneously with the growing presence and advancement of American Latinos in the economic and political mainstream of this nation. This document is a step toward the development and implementation of action plans intended to develop a constructive dialogue with key stakeholders in the financial services industry, and set in place the necessary mechanisms for a global financial services industry that provides access to opportunity for all.

This White Paper is meant to be a "living document' that can only improve through the involvement of both financial services users and providers. We also hope that it serves as a concrete example of the New America Alliance ethos of information sharing and collaboration towards the achievement of common goals.

This document represents a major step in communicating the current state of American Latinos in the financial services industry but, more importantly, it provides the initial elements to eliminate barriers faced by Latinos in the financial services field and ensure that the best and brightest Latino entrepreneurs will have the resources and the opportunities to enhance the intellectual, social and economic capital of our nation.

In this White Paper we have addressed some of the most significant challenges and constituents of Latino-owned firms in the financial services arena. Clear understanding of challenges facing the American Latino community in the financial services industry allows us to develop a concrete action plan. This action plan is segmented by the following constituency groups: 1) elected and appointed officials, 2) governance of pension funds and corporations.

Elected and Appointed Officials

Legislators play a key role in developing standards for accountability to ensure adequate Latino participation. The four financial service sectors studied in Phase I of this project shared a common conclusion: the importance of conducting hearings at the local, state and congressional levels. We believe that hearings with the participation of executive directors, trustees, and consultants should facilitate the inclusion of Latino firms as a mechanism to:

- enhance information sharing,
- promote familiarity with the roles and functions of key players in the financial services sector and
- increase accountability of elected and appointed officials responsible for overseeing public funds.

Further, we suggest that each legislator conduct a study at the state level with the primary objectives to determine where the assets of the Latino community are, how they are managed and what the governance is around those decisions.

Legislators can study and pass legislation to encourage pension funds to increase minority participation. Legislators can influence favorable policies not only within their respective public funds but also in the private sector. The reach of legislators goes beyond the public fund level since many corporations seek favorable legislation and/or business within the states they reside. This presents an opportunity for legislators to encourage corporations to apply the same best practices of diversity they currently use in procurement in the financial services sector.

Pension Funds and Corporations

There is a clear need to increase American Latino representation at the board level of the various public pension funds. The same is true at the executive director level. Legislators have control over some of the appointments and should exercise that control.

Public funds, as well as corporations, should be held accountable for how they invest pension assets for their employees. At a minimum, funds should report on an annual basis on the progress they have made to include Latino asset managers as part of their diversity efforts.

Public, quasi-public pension and corporate funds should be encouraged to create or enforce special programs to include Latinos as their investment management consultants, asset managers, private equity funds and broker/dealers. They should consider creating staff positions within public pension funds to provide for underrepresented groups to advance.

In recent years, pension funds, such as, California Public Employees' Retirement System (CalPERS) and the Ohio Bureau of Workmen's Compensation (BWC) have established programs focused on doing more business with minority and women-owned firms as well as with other small or developing asset management firms. These programs have been successful, and in the case of Ohio BWC, a study has been published which attests to the success of the program with no compromise in investment results. Other states need to become aware of these efforts and implement more of these programs as well.

As indicated in the sections of this paper addressing the asset management, private equity and brokerage, the primary gatekeepers of this industry are consultants and pension fund managers. Latinos in financial services need to work closely with consultants who are committed to the diversity agenda and who want to work with Latino asset managers and broker/dealers to create programs that will promote the participation of Latino service providers. This could include the formalization of a peer-to-peer technical assistance network within the NAA network of financial services professionals.

Training and education are paramount. Latinos must be promoted in all ranks. Pension funds and advisors should make diversity inclusion a checklist question for financial services providers, including investment management consultants, asset managers, private equity professionals and broker/dealers. It is also necessary to generate better data on young Latinos in the industry (vs. general population) to highlight the gap. It is imperative to promote the education and integration of Latinos into the financial services industry through education and mentorship networks.

APPENDICES

APPENDIX A
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We wish to acknowledge the following individuals for their invaluable contributions to the research, development, and review of this report.

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APPENDIX B

Survey Sample, Phase I

A. How would you describe the key challenges for your industry and your company regarding:

- Capital
- Access to markets
- Artificial barriers to competition
- Red-tape obstacles
- Other challenges

B. Who are the key constituents – institutions or persons – who can help resolve these challenges, raise awareness, and support American Latino financial services firms? Please provide their contact information.

C. What specific action plan within the following areas would you suggest will allow us to establish meaningful dialogues with all key constituents?

- Advocacy
- Legislative changes
- Non-legislative political support
- Other

D. Are you aware of specific efforts that are taking place currently at the State or Federal level with certain key constituents? Are you involved in any of them? Can NAA become an active part of those efforts? How?

E. Are you aware of any other American Latino firms, outside NAA affiliated firms, in your financial sector?

APPENDIX C

New America Alliance
Affiliated Financial Services Firms Directory

Investment Management Consulting, Asset Management, Private Equity, and Brokerage Sectors

As of October 12, 2003

Investment Management Consulting

Consultiva Internacional, Inc.

Asset Management

Attucks Asset Management, LLP
First Quadrant
Fortaleza Asset Management, Inc.
LM Capital Group
Samuel A. Ramirez & Co., Inc.
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UBS Global Asset Management
Valenzuela Capital Partners, LLC

Private Equity

Baeza & Co.
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Brokerage

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Gardner Rich & Company
Greenwich Capital Markets
Goldman, Sachs & Co.
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APPENDIX C

New America Alliance
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APPENDIX E
Letters of Endorsement

Congress of the United States
House of Representatives
Washington, DC 20515

October 16, 2003

Mr. Moctesuma Esparza
Chair of the Board
New America Alliance
1050 Connecticut Avenue, NW
10th Floor
Washington, DC 20036

Dear Mr. Esparza:

On behalf of the Congressional Hispanic Caucus, we write in strong support of the New America Alliance's "White Paper: American Latinos in Financial Services." Hispanics are faced with a unique opportunity for economic advancement, as well as tough challenges, in this new century. Our community must have free access to capital and financial markets that are the building blocks of economic advancement. This report highlights the challenges faced by Hispanics in the industry, identifies key constituents who can help resolve these challenges, and provides a platform to address these issues. The Congressional Hispanic Caucus supports the New America Alliance's efforts to meet these challenges and ensure that the face of the financial services industry and corporate America reflects the face of America.

The Hispanic community is the largest minority group and the fastest-growing consumer segment in the nation. At 42.6 million people, Hispanics represent 14 percent of the population in the United States, including Puerto Rico, and have an estimated annual purchasing power of over $600 billion. Yet only 1.7 percent of all board seats in Fortune 1,000 companies are held by Hispanics. Only a handful of the more than 9,000 banks and thrifts in this country are majority-owned or managed by Hispanics. Many Hispanic majority-owned institutions also continue to struggle to find adequate access to public and private pension funds, and many minority procurement programs at major corporations have typically not included financial services.

The Congressional Hispanic Caucus recognizes the value of diversity in the financial services industry and in particular the role of the private and public sectors, specifically corporate America and the public pension funds, in addressing this issue. We are collaborating with New America Alliance and key financial stakeholders to create processes, oversight, and enforcement of regulations that pertain to enhancing access to capital and wealth building opportunities in the financial services system.

It is the responsibility of influential Hispanic leaders in government and business to build on the gains made by Hispanics in the financial services industry and corporate America. The facts, ideas and action steps outlined in this White Paper provide a guide to improve our nation's financial services system. We applaud New America Alliance for its efforts and we look forward to our continued collaboration.

Sincerely,

Congressman Ciro Rodriguez
Chair, Congressional Hispanic Caucus

Congressman Joe Baca
Chair, CHC Corporate America Task Force

NEWS

from New York City Comptroller
William C. Thompson, Jr.

1 Centre Street, New York, NY 10007
(212) 669-3747
press@comptroller.nyc.gov
www.comptroller.nyc.gov

October 14, 2003

STATEMENT OF SUPPORT
William C. Thompson, Jr.
Comptroller of the City of New York

RE: New America Alliance White Paper: American Latinos in Financial Services

I applaud the efforts of the New America Alliance, in its report on American Latinos in Financial Services, to delineate the challenges faced by the Latino community in its efforts to broaden its representation in the consulting, asset management, private equity, and brokerage sectors of the financial services industry. This diligent, thorough and invaluable study should serve as the basis for a constructive and serious dialogue among institutional investors, public figures and business leaders as we seek out ways in which we can provide greater opportunities for Latinos in the financial services sector.

As New York City Comptroller, I am committed to breaking new ground in this area, and my office has taken several concrete steps toward doing just that. Most recently, on behalf of the New York City Retirement Systems, my office issued a request for qualifications targeting discretionary managers to invest up to $175 million in emerging private equity funds. In unveiling this innovative program, we hope to take advantage of the market opportunity presented by small, first-time funds – particularly those owned by women or members of minority groups. This represents a crucial step forward in our ongoing efforts to give women and minority-owned firms every opportunity to demonstrate their potential. By partnering with the next generation of the best and the brightest private equity managers, the City of New York also stands to benefit.

I look forward to working with the New America Alliance to seek out more ways in which we can advance the cause of Latinos within the financial services sector.

MILKEN INSTITUTE

October 16, 2003

Mr. Moctesuma Esparza
Chair of the Board

Mr. Jorge Castro
Chair of Economic Capital

Ms. Maria del Pilar Avila
Executive Director

Dear Friends:

With great interest and concern, I've completed reading your important perspective developed in "American Latinos in Financial Services." This work makes an important contribution to our understanding of the barriers that exist in financial services and capital markets that must be overcome to insure economic growth and job creation. Emerging domestic markets which represent the greatest promise for economic growth and profitability are widely underserved. Latino businesses are a significant and important part of those markets. To realize the potential of Latino businesses as an engine for growth, the capital gap in funding them must be overcome. Your paper addresses many of the issues that must be addressed to overcome barriers to growth and broader economic participation to insure U. S. competitiveness in the decades ahead.

Sincerely,

Glenn Yago, Ph.D.
Director, Capital Studies

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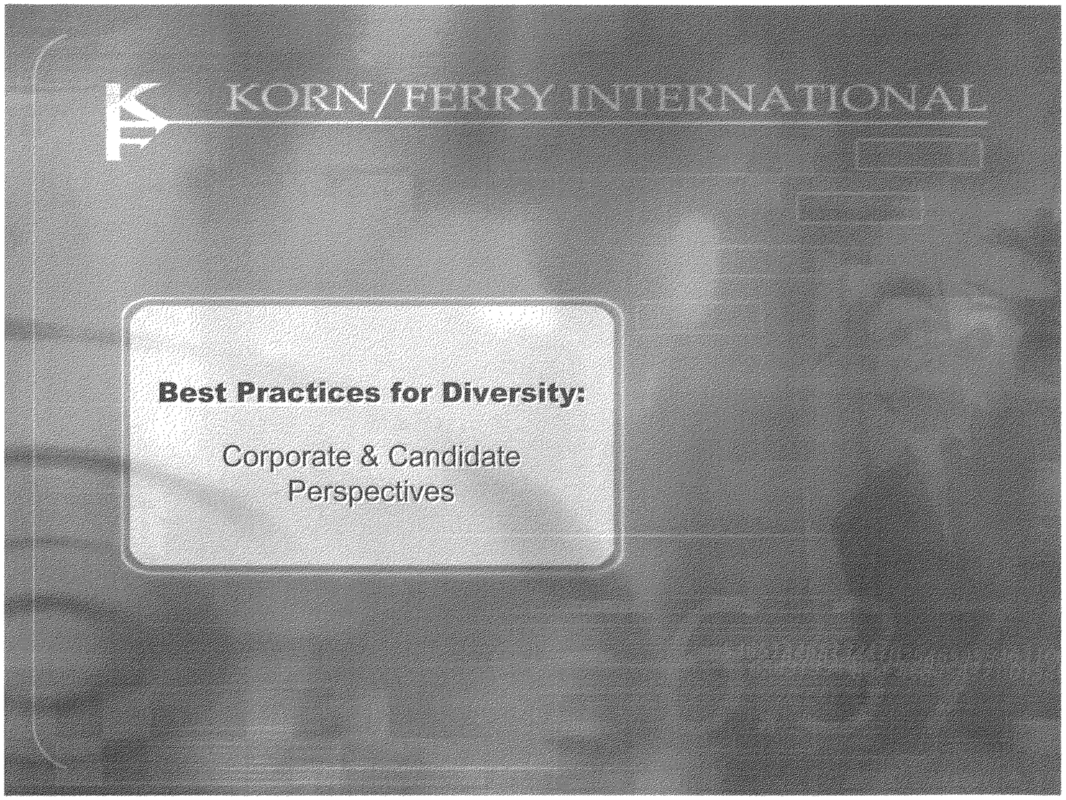
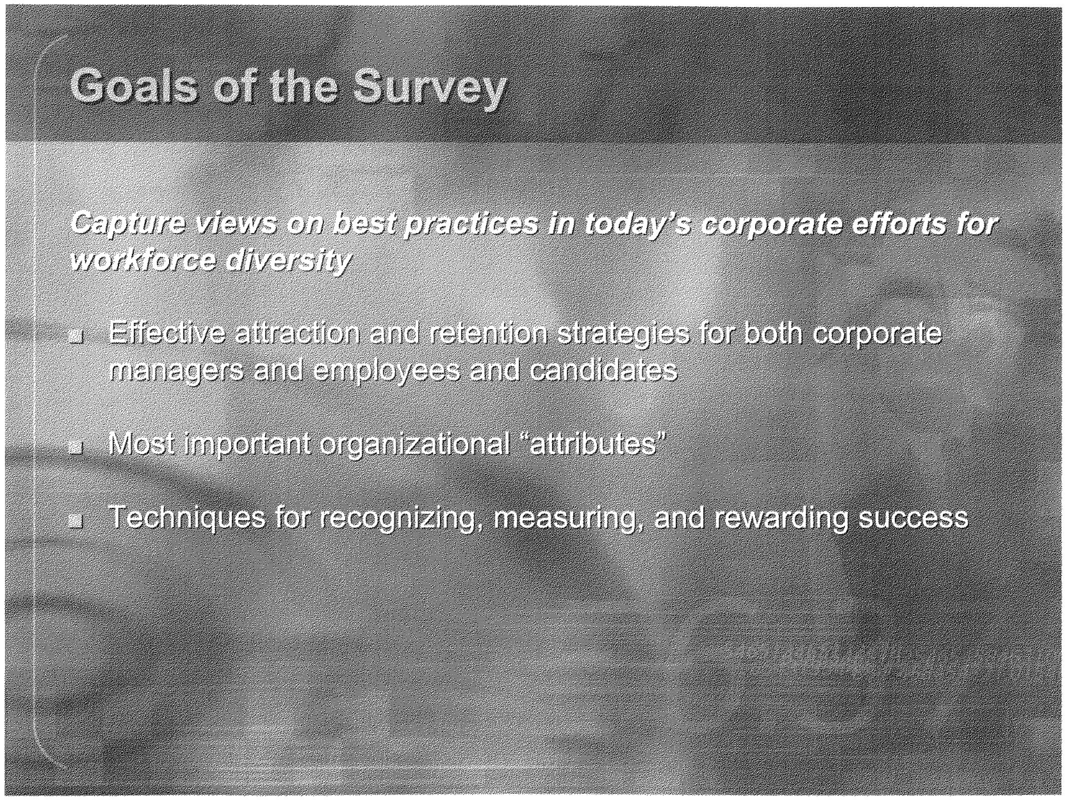
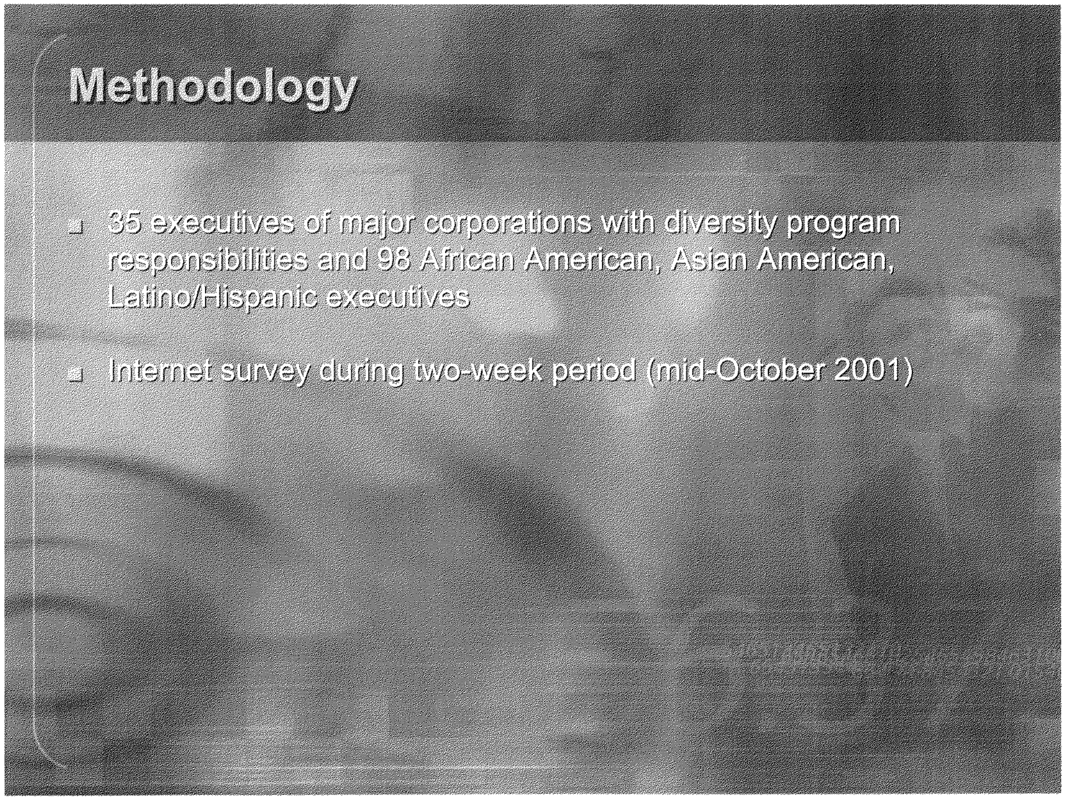

KORN/FERRY INTERNATIONAL
Best Practices for Diversity:
Corporate & Candidate
Perspectives


Goals of the Survey
Capture views on best practices in today's corporate efforts for workforce diversity
Effective attraction and retention strategies for both corporate managers and employees and candidates
Most important organizational "attributes"
Techniques for recognizing, measuring, and rewarding success

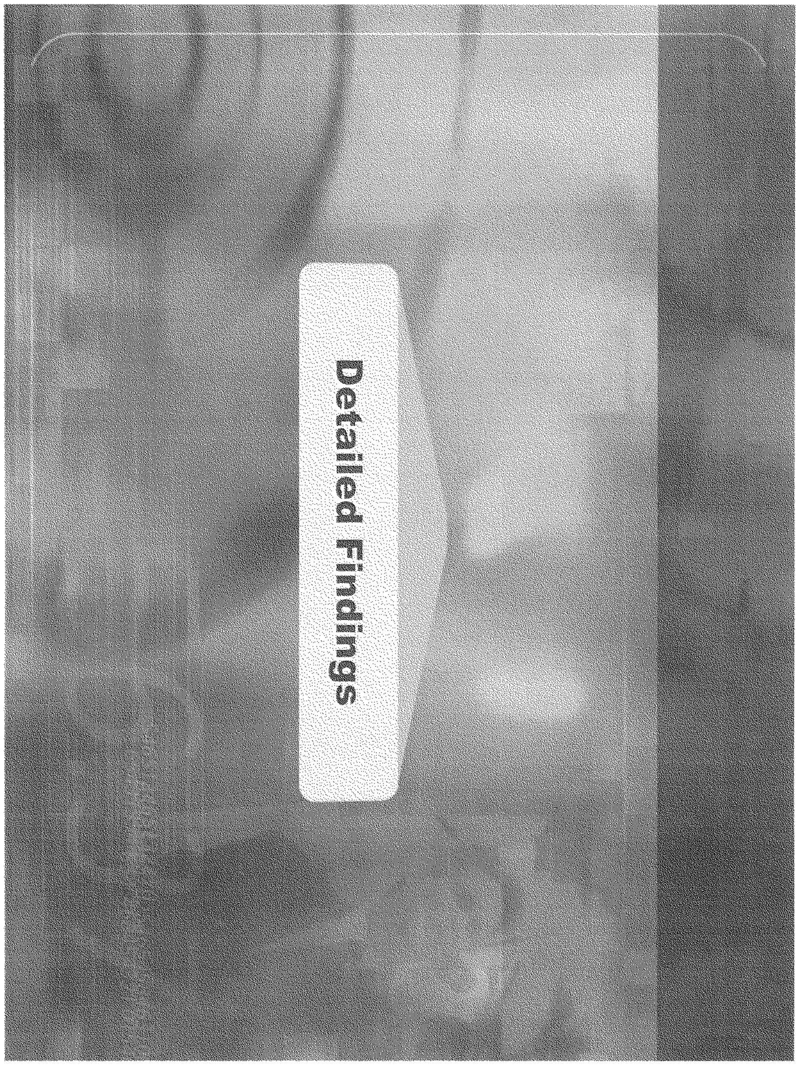

Methodology
35 executives of major corporations with diversity program responsibilities and 98 African American, Asian American, Latino/Hispanic executives
Internet survey during two-week period (mid-October 2001)

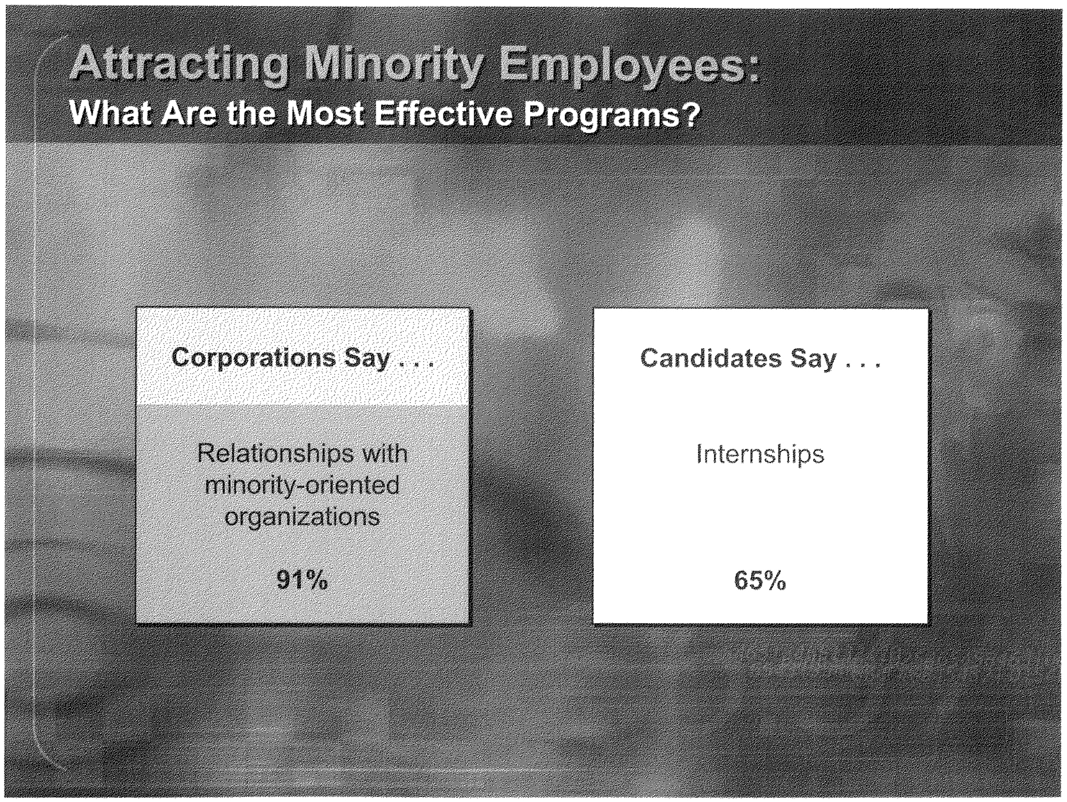
Survey Highlights

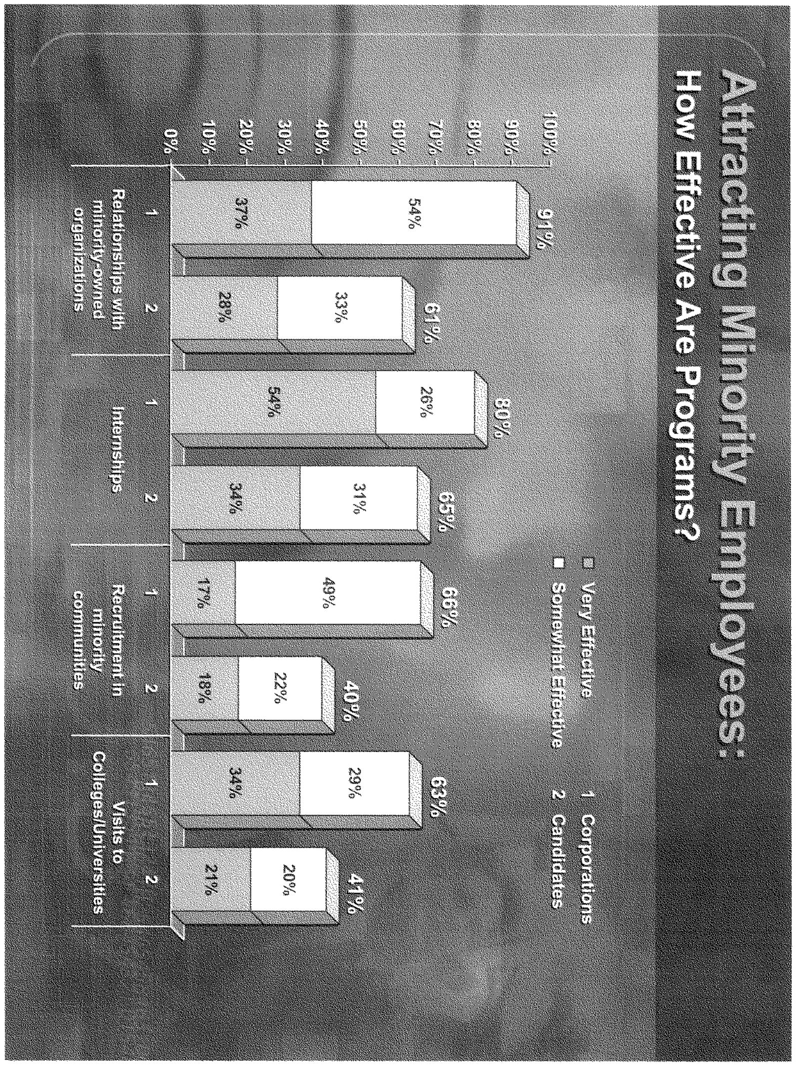
- Corporate executives and minority professionals generally disagree on the effectiveness of diversity programs
- Disagreement on the effectiveness of corporations achieving diversity goals
  - Executives rate corporate effectiveness much more highly then do the professionals
- Corporate executives say that relationships with minority oriented organizations are the most effective program for attracting minority employees – while minority professionals say that internships are most effective

Survey Highlights (continued)

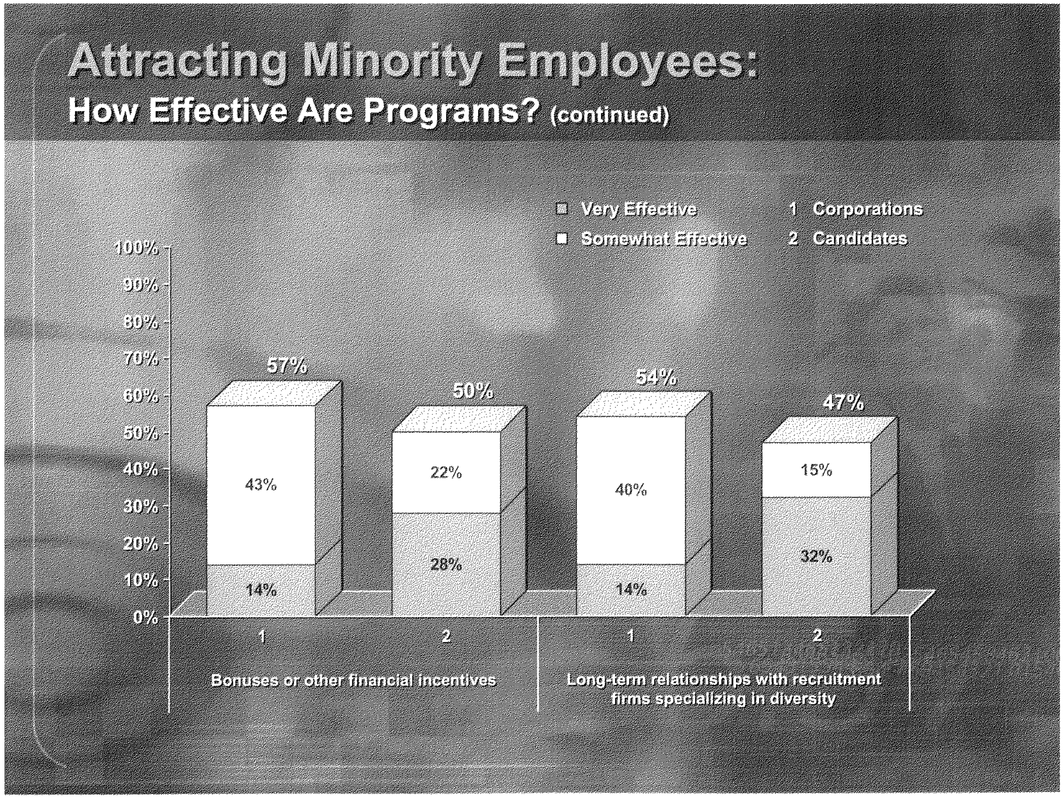
- Corporate executives and minority professionals agree that skills training/managerial training is the most effective retention program
- Corporate executives and minority professionals agree that the commitment of senior management is the most important corporate attribute in retaining minority employees
  - They also agree that making diversity an integral part of the business strategy is the second most important corporate attribute

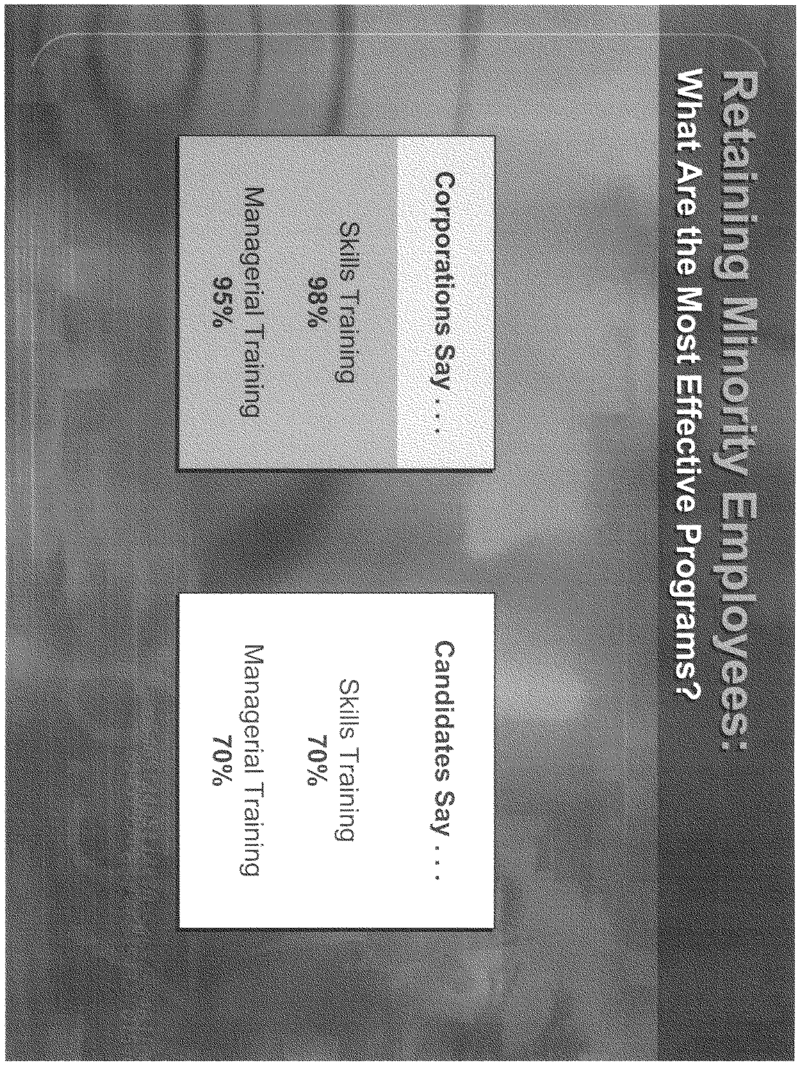

Detailed Findings

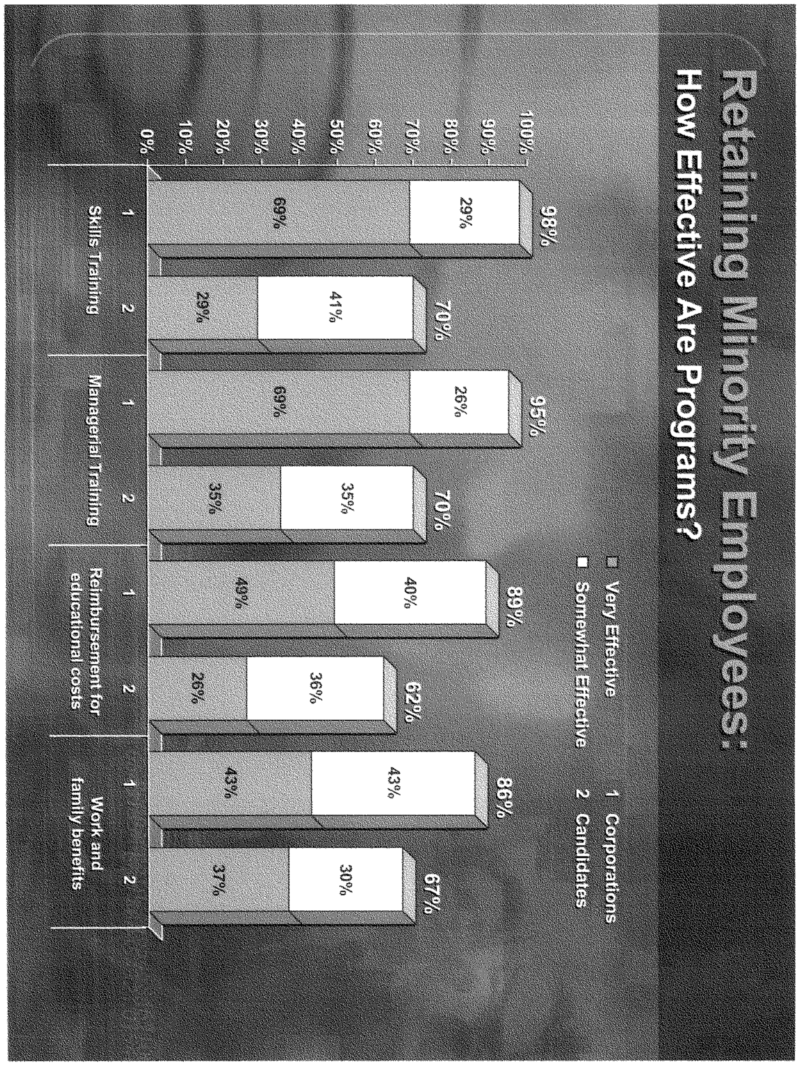

Attracting Minority Employees:
What Are the Most Effective Programs?
Corporations Say . . .
Relationships with minority-oriented organizations
91%
Candidates Say . . .
Internships
65%

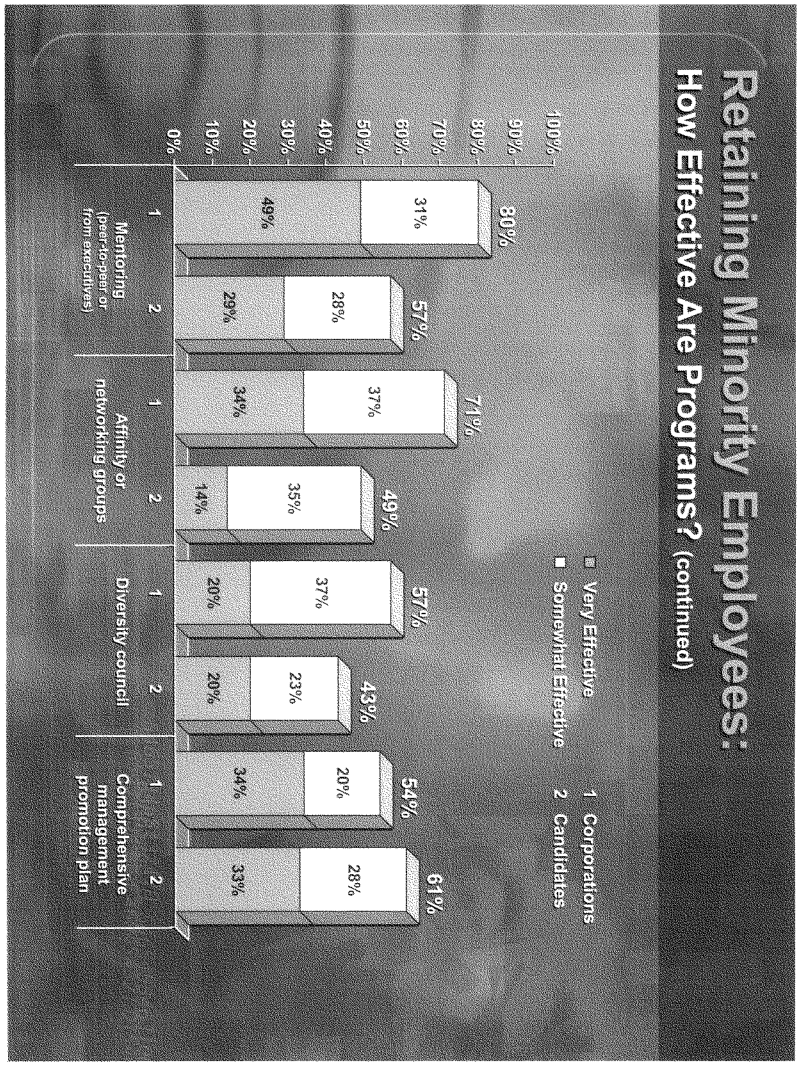


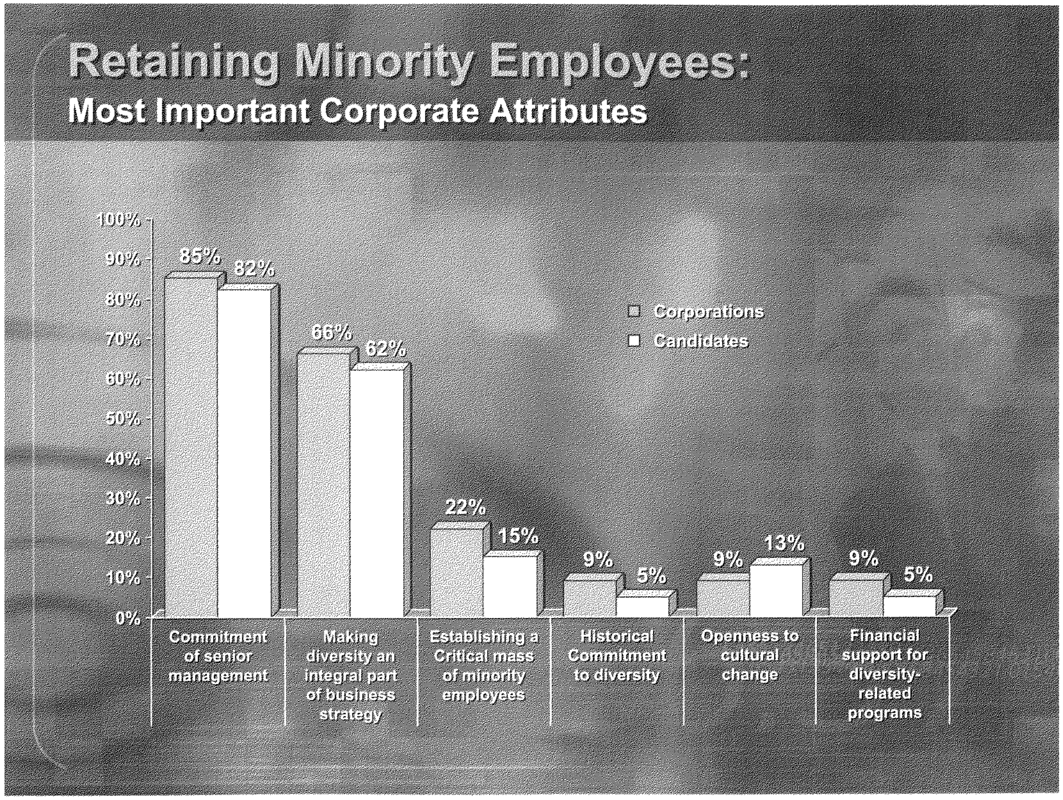
Attracting Minority Employees:
How Effective Are Programs?
Very Effective
Somewhat Effective
1 Corporations
2 Candidates
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
91%
54%
37%
61%
33%
28%
80%
26%
54%
65%
31%
34%
66%
49%
17%
40%
22%
18%
63%
29%
34%
41%
20%
21%
1
2
Relationships with minority-owned organizations
1
2
Internships
1
2
Recruitment in minority communities
1
2
Visits to Colleges/Universities

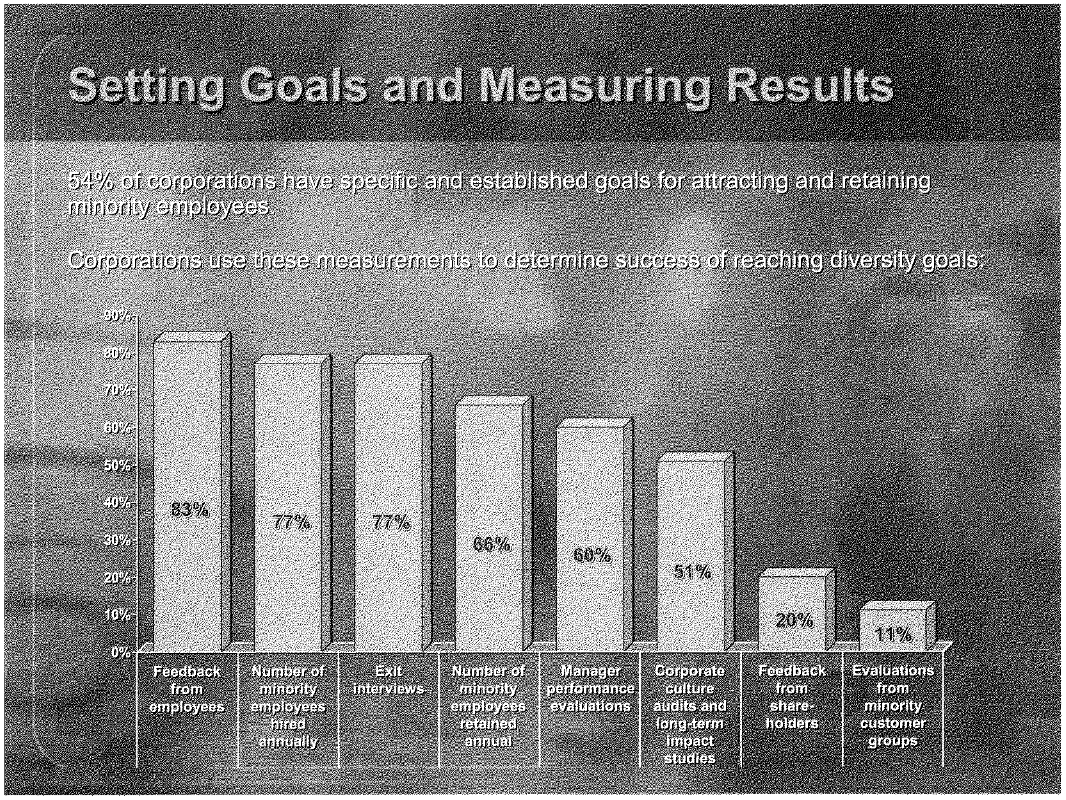

Attracting Minority Employees:
How Effective Are Programs? (continued)
Very Effective
Somewhat Effective
1 Corporations
2 Candidates
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
57%
43%
14%
50%
22%
28%
54%
40%
14%
47%
15%
32%
1
2
1
2
Bonuses or other financial incentives
Long-term relationships with recruitment firms specializing in diversity

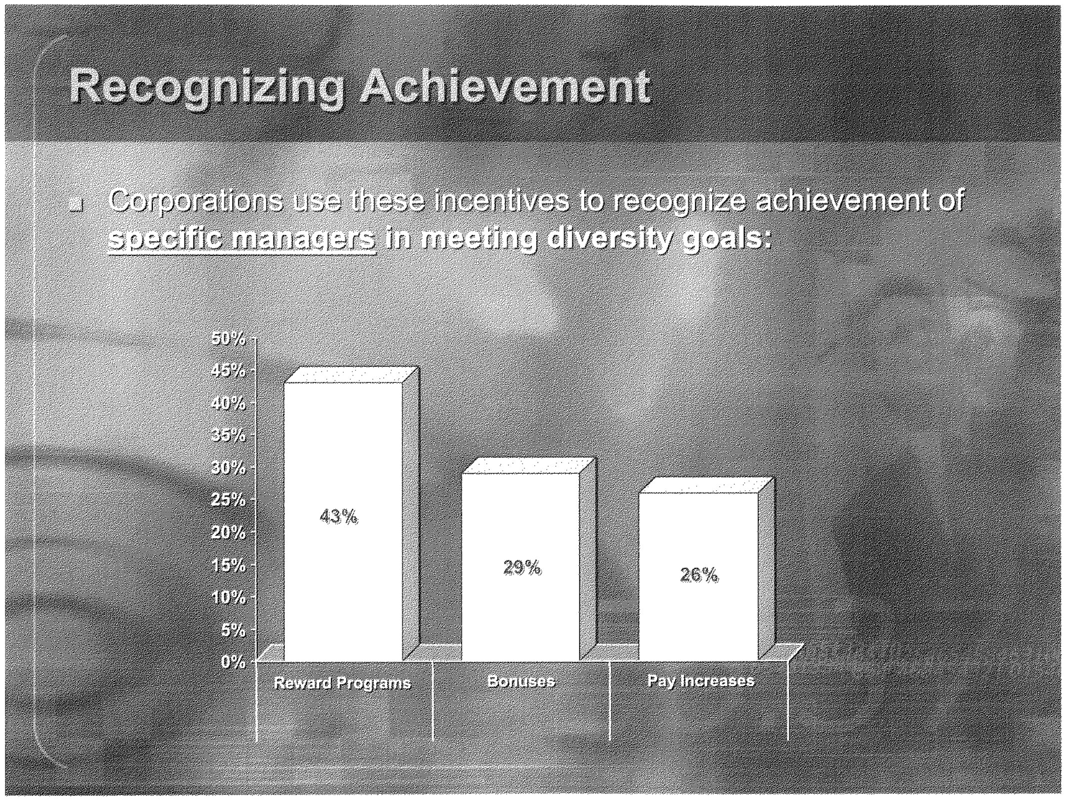

Retaining Minority Employees:
What Are the Most Effective Programs?
Corporations Say . . .
Skills Training
98%
Managerial Training
95%
Candidates Say . . .
Skills Training
70%
Managerial Training
70%

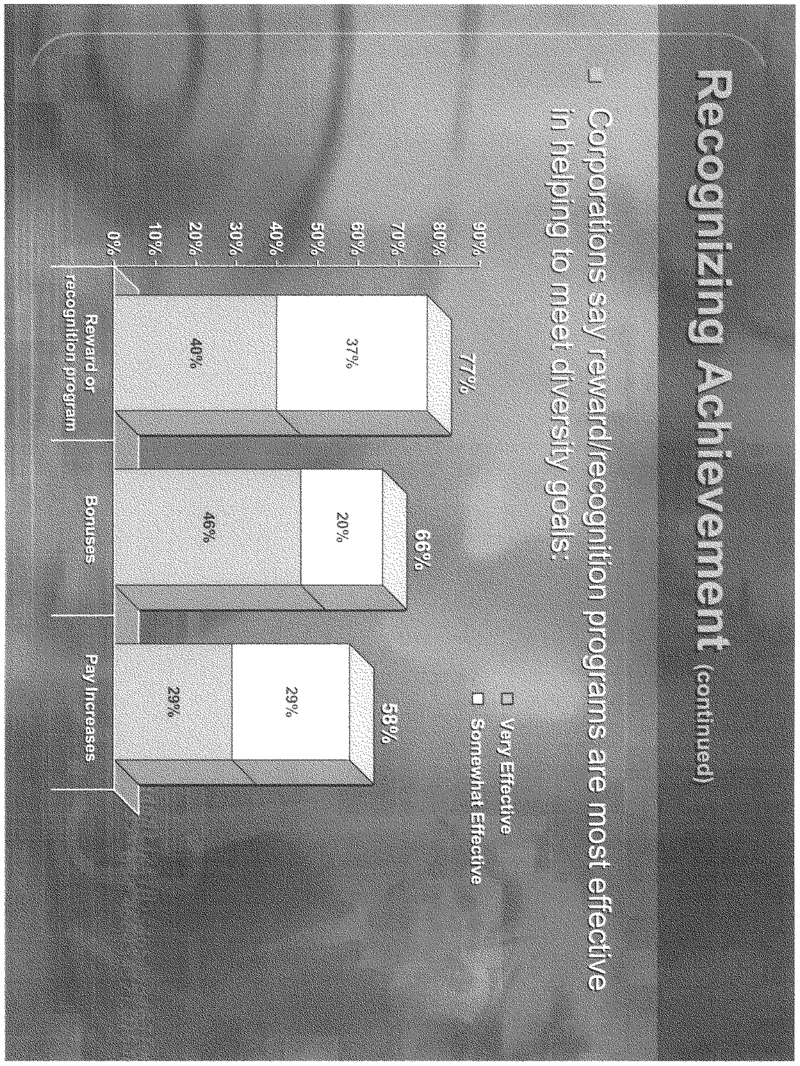

Retaining Minority Employees:
How Effective Are Programs?
Very Effective
Somewhat Effective
1 Corporations
2 Candidates
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
98%
29%
69%
70%
41%
29%
95%
26%
69%
70%
35%
35%
89%
40%
49%
62%
36%
26%
86%
43%
43%
67%
30%
37%
1
2
Skills Training
Managerial Training
Reimbursement for educational costs
Work and family benefits

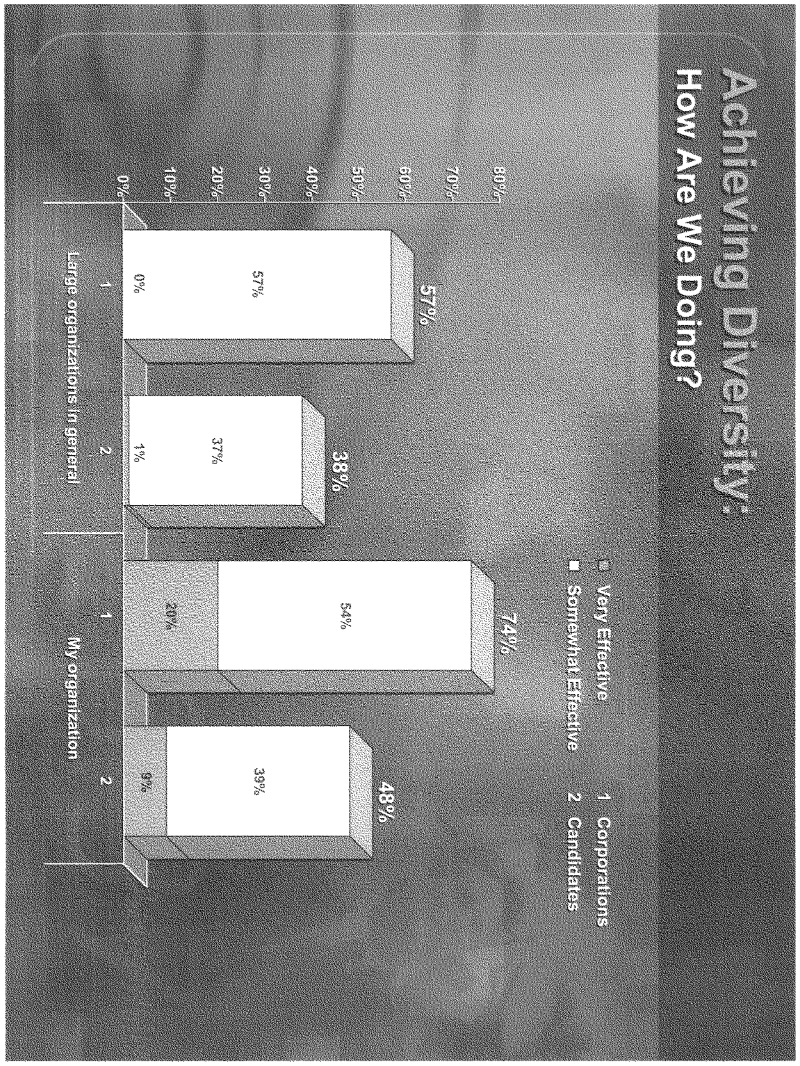

Retaining Minority Employees:
How Effective Are Programs? (continued)
Very Effective
Somewhat Effective
1 Corporations
2 Candidates
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
80%
31%
49%
57%
28%
29%
71%
37%
34%
49%
35%
14%
57%
37%
20%
43%
23%
20%
54%
20%
34%
61%
28%
33%
Mentoring (peer-to-peer or from executives)
Affinity or networking groups
Diversity council
Comprehensive management promotion plan

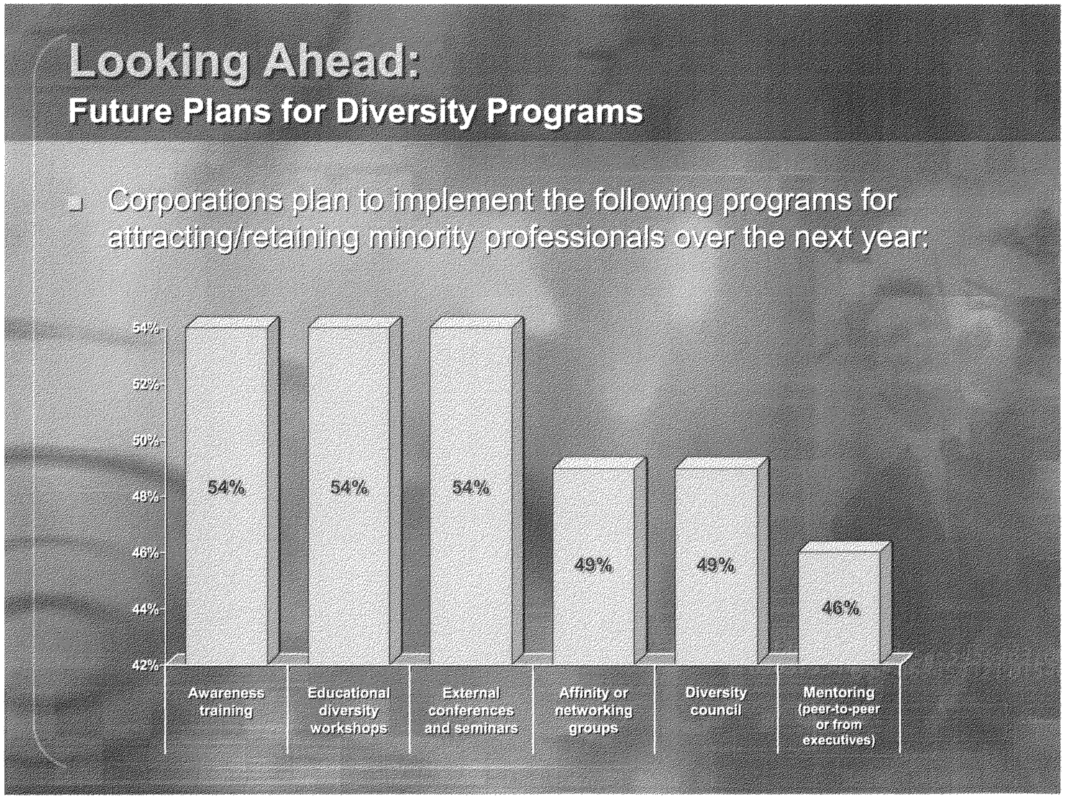

Retaining Minority Employees:
Most Important Corporate Attributes
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
85%
82%
66%
62%
22%
15%
9%
5%
9%
13%
9%
5%
Corporations
Candidates
Commitment of senior management
Making diversity an integral part of business strategy
Establishing a Critical mass of minority employees
Historical Commitment to diversity
Openness to cultural change
Financial support for diversity-related programs


Setting Goals and Measuring Results
54% of corporations have specific and established goals for attracting and retaining minority employees.
Corporations use these measurements to determine success of reaching diversity goals:
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
83%
77%
77%
66%
60%
51%
20%
11%
Feedback from employees
Number of minority employees hired annually
Exit interviews
Number of minority employees retained annual
Manager performance evaluations
Corporate culture audits and long-term impact studies
Feedback from share-holders
Evaluations from minority customer groups


Recognizing Achievement
Corporations use these incentives to recognize achievement of specific managers in meeting diversity goals:
50%
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
43%
29%
26%
Reward Programs
Bonuses
Pay Increases


Recognizing Achievement (continued)
Corporations say reward/recognition programs are most effective in helping to meet diversity goals:
Very Effective
Somewhat Effective
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
77%
37%
40%
Reward or recognition program
66%
20%
46%
Bonuses
58%
29%
29%
Pay Increases


Achieving Diversity:
How Are We Doing?
Very Effective
Somewhat Effective
1 Corporations
2 Candidates
80%
70%
60%
50%
40%
30%
20%
10%
0%
57%
57%
0%
38%
37%
1%
74%
54%
20%
48%
39%
9%
1
2
1
2
Large organizations in general
My organization


Looking Ahead:
Future Plans for Diversity Programs
Corporations plan to implement the following programs for attracting/retaining minority professionals over the next year:
54%
52%
50%
48%
46%
44%
42%
54%
54%
54%
49%
49%
46%
Awareness training
Educational diversity workshops
External conferences and seminars
Affinity or networking groups
Diversity council
Mentoring (peer-to-peer or from executives)

Looking Ahead:
Candidates on Most Effective Approaches

Candidates say the following approaches would be most effective in a company's efforts to become more "diversity-friendly."

- **Commitment**
  - "Committed senior managers who make diversity part of the business strategy and quantitatively measure their progress"
  - "Demonstrated leadership from the CEO including a tie to bonus and promotions"
- **"Quality" of Hiring**
  - "Issue is not quantity, but rather quality of management positions occupied by diversity managers"
  - "Hire a more diverse pool of middle managers. The 'economic divide' in most companies is such that the majority of the non-white/male employees are secretarial and support staff"
  - "Hire minority managers with power to make things happen, not token ones"

Looking Ahead:
Candidates on Most Effective Approaches (continued)

- **Measurement and Incentives**
  - "Incorporating 'diversity' metrics, i.e., demographic, sourcing, retention, etc. into yearly company and management performance review. Without measurement and accountability, there can be no success"
  - "Metrics tied to senior management compensation"
- **Organizational Culture**
  - "Organization must have clear entry points and open-door policy to qualified candidates"
  - "Cultural shift to a more open environment that focuses on adding value to the organization by promoting diversity of thinking and behavior"
  - "Teach the organization how to value differences while appreciating the business advantages a company can obtain by being more diverse"