

October 2006

MINORITY BANKS

Regulators Need to Better Assess Effectiveness of Support Efforts



G A O

Accountability * Integrity * Reliability



Highlights of [GAO-07-6](#), a report to congressional requesters

MINORITY BANKS

Regulators Need to Better Assess Effectiveness of Support Efforts

Why GAO Did This Study

Minority banks can play an important role in serving the financial needs of historically underserved communities and growing populations of minorities. For this reason, the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) established goals that the Federal Deposit Insurance Corporation (FDIC) and the Office of Thrift Supervision (OTS) must work toward to preserve and promote such institutions (support efforts).

To evaluate their efforts, as well as those of the Office of the Comptroller of the Currency (OCC) and the Federal Reserve, GAO (1) reviewed the profitability of minority banks, (2) identified the regulators' support and assessment efforts, and (3) obtained the views of minority banks on the regulators' efforts.

GAO reviewed financial data from FDIC, interviewed regulators, and surveyed all minority banks.

What GAO Recommends

GAO recommends that the banking regulators review the effectiveness of their efforts by such means as (1) regularly surveying minority banks and/or (2) establishing outcome-oriented performance measures. The regulators may wish to focus on obtaining feedback from small and African-American banks. FDIC, OTS, and OCC agreed to implement the recommendation, while the Federal Reserve will consider implementing it.

www.gao.gov/cgi-bin/getrpt?GAO-07-6.

To view the full product, including the scope and methodology, click on the link above. To view the results of GAO's survey of minority banks, click www.gao.gov/cgi-bin/getrpt?GAO-07-7SP.

For more information, contact George A. Scott at 202-512-7215 or scottg@gao.gov.

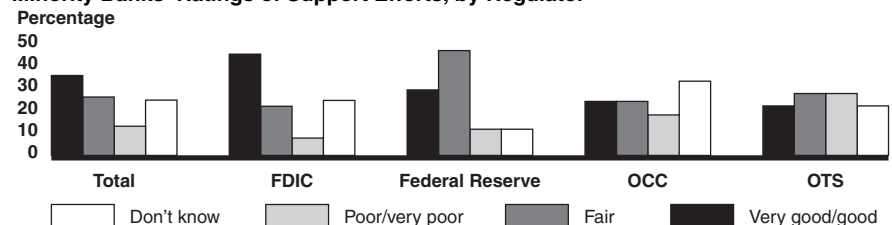
What GAO Found

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

Bank regulators have adopted differing approaches to supporting minority banks, but no agency has regularly and comprehensively assessed the effectiveness of its efforts. FDIC—which supervises over half of all minority banks—has the most comprehensive support efforts and leads interagency efforts. OTS focuses on providing technical assistance to minority banks. While not required to do so by Section 308 of FIRREA, OCC and the Federal Reserve have taken some steps to support minority banks and are planning others. Although FDIC has recently sought to assess the effectiveness of its support efforts through various methods, none of the regulators comprehensively surveys minority banks to obtain their views or has developed outcome-oriented performance measures. Consequently, the regulators are not well positioned to assess their support efforts.

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

Minority Banks' Ratings of Support Efforts, by Regulator



Source: GAO.

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Abbreviations

CRA	Community Reinvestment Act
FDIC	Federal Deposit Insurance Corporation
FIRREA	Financial Institutions, Reform, Recovery, and Enforcement Act
MBDP	Minority Bank Deposit Program
MBR	Minority Bankers Roundtable
NBA	National Bankers Association
OCC	Office of the Comptroller of the Currency
OTS	Office of Thrift Supervision
ROA	return on assets

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United States Government Accountability Office
Washington, DC 20548

October 4, 2006

Congressional Requesters

Minority banks are a small community within the banking industry, accounting for about 2 percent of all financial institutions and total industry assets.¹ Despite their small numbers, minority banks can play an important role in serving the financial needs of historically underserved communities, such as African-Americans, and growing populations of minorities, such as Hispanic-Americans and Asian-Americans. For this reason, Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) established goals that federal regulators must work toward to preserve and promote such institutions.² For example, the Federal Deposit Insurance Corporation (FDIC) and the Office of Thrift Supervision (OTS), in consultation with the Department of the Treasury (Treasury), are required to provide minority banks with technical assistance and training and educational programs and to work toward preserving the character of minority banks in cases involving

¹For purposes of this report, the term “minority banks” refers to all depository institutions—including thrifts—that are considered minority- or women-owned by the Department of the Treasury (Treasury) and the federal banking regulators—the Federal Deposit Insurance Corporation (FDIC), the Board of Governors of the Federal Reserve System (Federal Reserve), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS). As discussed in appendix II, FDIC and OTS are subject to the “minority depository institution definition” set forth in Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). Treasury uses different criteria as set forth for eligibility in its Minority Bank Deposit Program (MBDP). OCC and the Federal Reserve employ Treasury’s criteria for minority- and women-owned banks (although the Federal Reserve uses both the FIRREA definition and Treasury’s for different purposes). Treasury and each of the banking regulators compile lists of institutions that they consider to be eligible to participate in their minority banking efforts. As Section 308 of FIRREA is not aimed at preserving and promoting the minority ownership status of credit unions, we did not include the National Credit Union Administration in our review.

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

mergers or acquisitions of these institutions (we refer to these activities as efforts to support minority banks in our report).³

In 1993, we reported on efforts by Treasury, FDIC, and OTS to support minority banks in accordance with Section 308 of FIRREA.⁴ At that time, we found that these agencies had taken steps to respond to Section 308, but minority banks we interviewed gave FDIC and OTS mixed reviews on their efforts. In particular, minority banks were concerned that the regulators did not provide adequate technical assistance. Further, minority banks expressed concerns about related regulatory issues, including their view that agency safety and soundness examiners did not fully understand the unique challenges their institutions faced.⁵ We recommended that FDIC and OTS periodically survey minority banks to assess the effectiveness of their efforts to support such institutions.

You requested that we follow up on our 1993 report and review all of the federal banking regulators' efforts to support minority banks, including the activities of the Office of the Comptroller of the Currency (OCC) and the Board of Governors of the Federal Reserve System (Federal Reserve), which are not subject to Section 308 of FIRREA.⁶ Accordingly, our reporting objectives were to (1) review the profitability of minority banks over time, (2) identify the federal banking regulators' efforts to support minority banks and determine whether the regulators were evaluating the effectiveness of these efforts, and (3) obtain the views of minority banks on the federal regulators' minority banking support efforts and related regulatory issues.

³"Technical assistance" is typically defined as one-on-one assistance that a regulator may provide to a bank. For example, a regulator may advise a bank on compliance with a particular statute or regulation. Regulators may also provide technical assistance to banks that is related to deficiencies identified in safety and soundness or compliance examinations. In contrast, education programs are typically open to all banks regulated by a particular agency or to all banks located within a regulator's regional office. For example, regulators may offer training for banks to review compliance with laws and regulations.

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

⁵Federal banking regulators conduct periodic examinations of banks to assess their financial condition and compliance with laws and regulations, among other activities.

⁶Unless otherwise specified, we use the term "Federal Reserve" throughout this report to refer to the Federal Reserve System. The Federal Reserve System includes the Federal Reserve's Board of Governors and the 12 Federal Reserve Banks.

To address the first objective, we obtained and analyzed financial data for minority banks from FDIC for 2005, 2000, and 1995.⁷ We also reviewed background literature and conducted interviews with minority banks to discuss the business environment in which these banks operate. For the second objective, we interviewed officials from the Department of the Treasury, FDIC, Federal Reserve, OCC, and OTS and reviewed regulators' documentation addressing their efforts to support minority banks and assess the effectiveness of these efforts. We also compared the regulators' efforts to our standards for program assessment and performance measures and those established in the Government Performance and Results Act. To address the third objective, we conducted a Web-based survey of all institutions identified by the banking regulators as minority institutions. The survey, which was conducted from March through April 2006, asked about the banks' awareness and use of the regulators' minority bank support efforts and also asked the banks to rate these efforts. We received 149 survey responses out of a total population of 195 minority banks, for a response rate of 76 percent. We also interviewed relevant trade associations and a sample of 19 minority banks throughout the United States that we selected based on type of minority ownership and primary regulator. Appendix I explains our scope and methodology in greater detail. Appendix II describes each regulator's definition of minority-owned and women-owned banks for purposes of eligibility for participation in the regulator's particular minority banking support efforts. Appendix III provides the number of minority banks that responded to each survey question discussed in the report and thereby supplements the use of percentages to summarize these results. All survey questions and the frequencies of responses to each question are presented in a supplemental product that can be found on our Web site at www.gao.gov/cgi-bin/getrpt?GAO-07-7SP.

We conducted our work in Washington, D.C., and New York from December 2005 to September 2006 in accordance with generally accepted government auditing standards.

⁷Because information on minority banks was not available for both 2000 and 1995 from all federal banking regulators, for these periods we analyzed only those minority banks that were still operating as minority institutions in 2005. As a result, minority banks that failed or merged with other institutions between 1995 and 2005 are not included in the analysis for those years. In addition, we were unable to confirm that all 2005 minority banks were operating as minority banks in 1995 and 2000, although the rate of change in ownership among minority banks is low.

Results in Brief

Our analysis of FDIC data showed that while the profitability of most minority banks with assets greater than \$100 million nearly equaled the profitability of all similarly sized banks (peers), the profitability of smaller minority banks and African-American banks of all sizes did not.⁸ Profitability is commonly measured by return on assets (ROA), or the ratio of profits to assets, and ROAs are typically compared across peer groups to assess performance.⁹ Many small minority banks (those with less than \$100 million in assets) had ROAs that were substantially lower than those of their peer groups in 2005 as well as in 1995 and 2000. Moreover, African-American banks of all sizes had ROAs that were significantly below those of their peers in 2005 as well as in 1995 and 2000 (African-American banks of all sizes and other small minority banks account for about half of all minority banks). Our analysis of FDIC data identified some possible explanations for the relatively low profitability of some small minority banks and African-American banks. In particular, some of these banks maintain relatively high reserves for potential loan losses or may have higher operating expenses, such as administrative expenses or salaries, than other banks. The results of other studies we reviewed were consistent with these findings, and minority banks that we spoke with offered additional explanations, such as the effects of increased competition from larger banks. Nevertheless, the majority of officials from banks across all minority groups were positive about their banks' financial outlook, and many saw their minority status as an advantage in serving their communities (for example, in providing services in the language predominantly used by the minority community).

The bank regulators have adopted differing approaches to supporting minority banks, and no agency assessed the results of its efforts through regular and comprehensive surveys of minority banks or outcome-oriented performance measures.¹⁰ FDIC—which supervises more than half of all minority banks—currently has the most comprehensive program to support minority banks and leads an interagency group that coordinates such efforts. Among other things, FDIC has designated officials in the agency's headquarters and regional offices who are responsible for minority bank efforts, holds periodic conferences for minority banks, and

⁸Peer groups include all institutions of a similar asset size, including minority and nonminority institutions. Peer groups were defined by FDIC.

⁹Examples of assets include loans and securities.

¹⁰Outcome-oriented performance measures assess the results of a program against its intended purposes.

has established formal policies for annual outreach to the banks it regulates to make them aware of available technical assistance. OTS also has staff who are responsible for the agency's efforts to support minority banks, has developed outreach procedures, and focuses its efforts on providing technical assistance. OCC and the Federal Reserve, while not required to do so by Section 308 of FIRREA, have undertaken some efforts to support minority banks, such as holding occasional conferences for Native American banks, and are planning additional efforts. FDIC has proactively sought to assess the effectiveness of its support efforts through, for example, surveying minority banks. However, these surveys have not addressed key activities, such as the provision of technical assistance, and the agency has not established outcome-oriented performance measures for its support efforts. None of the other regulators comprehensively surveys minority banks on their support efforts or has established outcome-oriented performance measures. Consequently, the regulators are not well positioned to assess the results of their minority bank support efforts or identify potential areas for improvement.

In our survey, minority banks identified potential limitations in the regulators' support efforts and related regulatory issues that would likely be of significance to agency managers and may warrant follow-up analysis. Specifically, our survey showed that (1) only about one-third of minority banks view the regulators' support efforts as very good or good; (2) minority banks' usage of the agencies' technical assistance appears to be low; and (3) some minority banks have concerns about related regulatory activities, such as examiners' knowledge of issues that affect their institutions. About 36 percent of survey respondents rated their regulators' efforts for minority banks as very good or good, while 26 percent rated the efforts as fair, 13 percent as poor or very poor, and 25 percent responded "don't know." Banks regulated by FDIC, which had the most extensive program and outreach efforts, were more positive about their agency's efforts than banks regulated by other agencies. However, only about half of the FDIC-regulated banks and about a quarter of the banks regulated by other agencies rated their agency's efforts as very good or good. While FDIC and OTS both emphasize the provision of technical assistance as part of their minority bank efforts, our survey showed that less than 30 percent of institutions regulated by these agencies took advantage of such assistance within the last 3 years. The majority of those banks that used technical assistance, however, found it to be useful. Minority banks regulated by OCC and the Federal Reserve reported similarly low usage of the agencies' technical assistance services. While it is not clear from our survey why relatively few minority banks use the agencies' technical assistance services and regulators cannot compel banks to use such

assistance, the potential exists for many such institutions, particularly small and African-American banks, to benefit from assistance that might help improve their operations and financial performance. As with our findings in our 1993 report, some minority bank officials said that examiners do not always understand the challenges that the banks may face in providing services in their communities or operating environments.¹¹ Although the bank officials said they did not expect special treatment in the examination process, they suggested that examiners needed to undergo more training to improve their understanding of minority banks and the customer base they serve.

This report makes a recommendation designed to help ensure that the bank regulators are better able to understand the reasons behind potential limitations in their support efforts and related activities—particularly the limited use of technical assistance and concerns about examiners’ knowledge of minority bank issues—within the minority bank community and to take corrective actions as necessary. Specifically, the report recommends that the federal banking regulators review the effectiveness of their efforts to support minority banks and, in so doing, consider employing the following methods: (1) regularly surveying the minority banks under their supervision on all efforts and regulatory areas affecting these institutions and/or (2) establishing outcome-oriented performance measures to evaluate the extent to which their efforts are achieving their objectives. Regulators may also wish to focus their efforts on obtaining feedback from small minority banks and African-American banks in order to identify and address, if possible, any issues that may be causing the relatively low profitability of some of these institutions.

We provided a draft of this report to FDIC, OTS, OCC, and the Federal Reserve for comment, and they provided written comments that are reprinted in appendixes IV–VII. In their responses, the agencies further elaborated on their existing minority bank efforts and described planned initiatives. Further, FDIC, OTS, and OCC agreed to implement our recommendation, while the Federal Reserve said it would consider implementing it. The agencies also provided technical comments, which were incorporated as appropriate. We also requested comments from the Department of the Treasury on the section of the draft report relevant to

¹¹When asked for suggestions about how regulators could improve their efforts to support minority banks, 21 percent of survey responses mentioned this issue. In addition, several minority banks we spoke with in interviews voiced similar opinions.

its activities under Section 308 of FIRREA. Treasury provided us with technical comments, which we have incorporated as appropriate.

Background

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

Table 1: Number and Percentage of Minority Banks, by Type, 2005

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

Source: GAO analysis of Treasury and federal banking regulators' data.

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

^aAsian-American includes individuals of Pacific Island descent.

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

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

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

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

Source: GAO analysis of FDIC data.

Each federally insured depository institution, including each minority bank, has a primary federal regulator: FDIC, OTS, OCC, or the Federal Reserve. The primary regulator for each bank is determined by the institution’s charter (table 3).¹²

Table 3: Federal Bank Regulator Bank Supervisory Responsibilities, by Bank Charter

Regulator	Type of bank
FDIC	State-chartered banks that are not members of the Federal Reserve System
OTS	Federally chartered and state-chartered savings associations and registered savings and loan holding companies
OCC	Nationally chartered banks and federal branches of foreign banks
Federal Reserve	State-chartered banks in the Federal Reserve System, bank holding companies, and international banking facilities within the United States

Source: FDIC, OTS, OCC, and the Federal Reserve.

¹²Throughout the report, we refer to thrifts as banks.

As shown in table 4, FDIC serves as the federal regulator for over half of minority banks—109 out of 195 banks, or 56 percent—and the Federal Reserve regulates the fewest.¹³

Table 4: Number of Minority Banks, by Regulator, 2005/2006

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

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

Note: Treasury and the banking regulators have different criteria for the banks they consider to be eligible to participate in their minority bank efforts (see app. II). In accordance with our request, in our population of minority banks we included any bank considered by at least one regulator to be eligible to participate in its efforts. There are cases where minority banks not considered by their primary regulator to be minority institutions were considered to be eligible for participation in another regulator's efforts. Ten minority banks regulated by FDIC were such cases, as were 4 Federal Reserve banks, 1 OTS bank, and 3 OCC banks.

The primary responsibilities of federal banking regulators include helping to ensure the safe and sound practices and operations of the institutions they oversee, the stability of financial markets, and compliance with laws and regulations. To achieve these goals, among other activities, the regulators conduct on-site examinations, issue regulations, conduct investigations, and take enforcement actions. Regulators may also close banks that are deemed to be insolvent and pose risks to the Deposit

¹³In our 1993 report, we reported that FDIC supervised 52 minority banks and OTS supervised 41 minority banks as of March 1993. OCC officials told us that their agency regulated 42 minority banks in 1993, and the Federal Reserve reported that it regulated 16 in 1993.

Insurance Fund.¹⁴ FDIC is responsible for ensuring that deposits in failed banks are protected up to established federal deposit insurance limits.¹⁵

Banking regulators primarily focus on ensuring the safety and soundness of banks, but laws and regulatory policies can identify additional goals and objectives. Recognizing the importance of minority banks, under Section 308 of FIRREA, Congress outlined five broad goals that FDIC and OTS, in consultation with Treasury, are to work toward to preserve and promote minority banks. These goals are

- preserving the present number of minority banks;
- preserving their minority character in cases involving mergers or acquisitions of minority banks;
- providing technical assistance to prevent the insolvency of institutions that are not currently insolvent;
- promoting and encouraging the creation of new minority banks; and
- providing for training, technical assistance, and educational programs.

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

¹⁴The Deposit Insurance Fund is the fund that provides deposit insurance for banks and thrifts and is administered by FDIC.

¹⁵For most of FDIC's history, purchase and assumption agreements—during which a healthy bank purchases some or all of the assets of a failed bank, as well as some or all of its liabilities—have been the preferred resolution method for troubled and failed banks. Under this method, FDIC values and markets the institutions and closes the institutions. The other two resolution methods FDIC has employed are (1) a deposit payoff, in which FDIC is the appointed receiver and all depositors with insured funds are paid the full amount of their deposits (depositors with uninsured funds and other general creditors of the failed bank are given receivership, entitling them to a share of the net proceeds from the sale of the bank's assets); and (2) an open bank assistance agreement under which FDIC provides financial assistance to an operating insured bank that is in danger of closing by making loans to the bank, purchasing assets, or placing deposits in the troubled bank.

regulator's regional office. For example, regulators may offer training for banks to review compliance with laws and regulations.

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

Most minority banks with assets exceeding \$100 million were nearly as profitable—measured by ROA—as their peers in 2005 as well as in earlier years, or had levels of profitability that have historically been considered adequate, according to our analysis of FDIC data. However, small minority and African-American banks of all sizes (which together account for about half of all minority institutions) have been significantly less profitable than their industry peers. Our analysis and other research has suggested some possible reasons for lower profitability among some small minority banks and African-American banks, such as higher reserves for potential loan losses and higher operating expenses. The results of other studies we reviewed were consistent with these findings, and minority banks that we spoke with offered additional explanations, such as the effects of increased competition from larger banks. However, overall officials from banks across all minority groups were positive about the financial outlook of their institutions. Many found their minority status to be an advantage in serving their communities—for example, in communicating with customers in their primary languages.

Small and African-American Banks' Profitability Was Lower than That of Peers

As shown in figure 1, most minority banks with assets exceeding \$100 million had ROAs in 2005 that were close to those of their peer groups, while many smaller banks had ROAs that were significantly lower than that of their peers.¹⁶ Minority banks with more than \$100 million in assets accounted for 58 percent of all minority banks, while those with less than \$100 million accounted for 42 percent.¹⁷ Each size category of minority banks with more than \$100 million in assets had a weighted average ROA that was slightly lower than that of its peers, but in each case their ROAs exceeded 1 percent.¹⁸ By historical banking industry standards, an ROA of 1 percent or more has generally been considered an adequate level of

¹⁶Some minority banks were established relatively recently (between 2002 and 2006). Although newer banks tend to be less profitable than older banks, we found that, in 2005, generally both older and newer small banks had significantly lower ROAs than their peers.

¹⁷The banking industry as a whole has an asset size distribution similar to that of minority banks (table 2).

¹⁸A weighted average is a variation on a simple average. Weighted averages take into account banks' asset size instead of counting each bank as an equal unit.

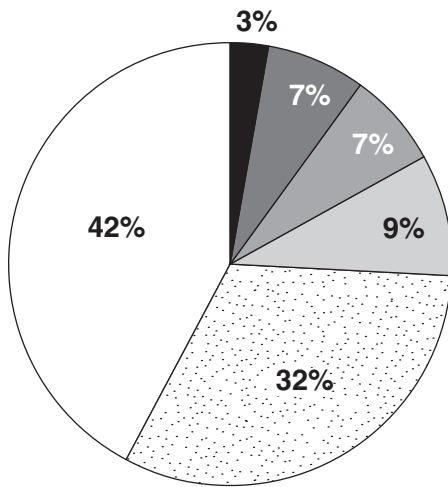
profitability. We found that of these larger minority banks, Hispanic-American, Asian-American, Native American, and women-owned banks were close to, and in some cases exceeded, the profitability of their peers in 2005.

Overall, small minority banks (those with assets of less than \$100 million) had an average ROA of 0.4 percent, and their peers had an average ROA of 1 percent. Our analysis of FDIC data for 1995 and 2000 also indicated some similar patterns, with minority banks with assets greater than \$100 million showing levels of profitability that were generally close to those of their peers, or ROAs of about 1 percent, while minority banks with assets of less than \$100 million showed greater differences with their peers. Further, in 2000 the Chairman of FDIC discussed the agency's finding that many small minority banks lagged in profitability. According to FDIC's analysis, nearly 70 percent of small minority banks reported an ROA in 1999 of under 1 percent, and nearly 40 percent reported an ROA of less than half the industry average.¹⁹

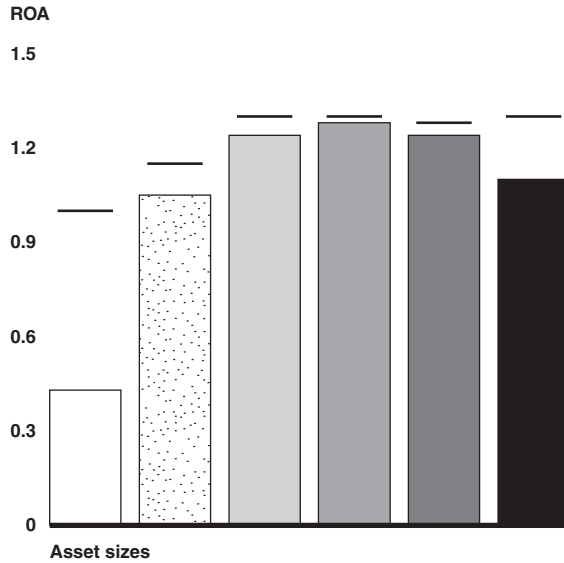
¹⁹Donna Tanoue, "Remarks By Donna Tanoue, Chairman Federal Deposit Insurance Corporation before The National Bankers Association, Chicago, Illinois October 4, 2000," FDIC. Available at <http://www.fdic.gov/news/news/speeches/archives/2000/sp04Oct00.html>.

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

Minority banks by asset size



ROA



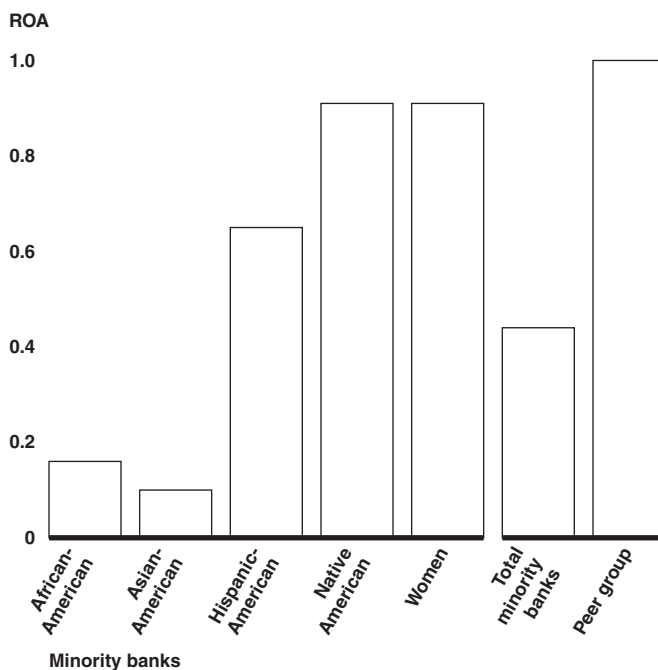
- Peer group
- Minority banks less than \$100 million
- Minority banks \$100 million-\$300 million
- Minority banks \$300 million-\$500 million
- Minority banks \$500 million-\$1 billion
- Minority banks \$1 billion-\$10 billion
- Minority banks greater than \$10 billion

Source: GAO.

Among small minority banks, African-American, Asian-American, and Hispanic-American banks had ROAs that were significantly lower than those of their peers, while the ROAs of small Native American and women-owned banks were closer to those of their peers (fig. 2). For example, the ROA for small Asian-American banks in 2005 was 0.10 percent and Hispanic-American banks' ROA was 0.65 percent, compared with their peers' ROA of 1 percent. Our analysis of FDIC data for 1995 and 2000 showed similar results, with small African-American, Asian-American, and

Hispanic-American banks in particular having significantly lower ROAs than their peers.²⁰

Figure 2: Average ROA of Small Minority Banks, 2005



Source: GAO analysis of FDIC data.

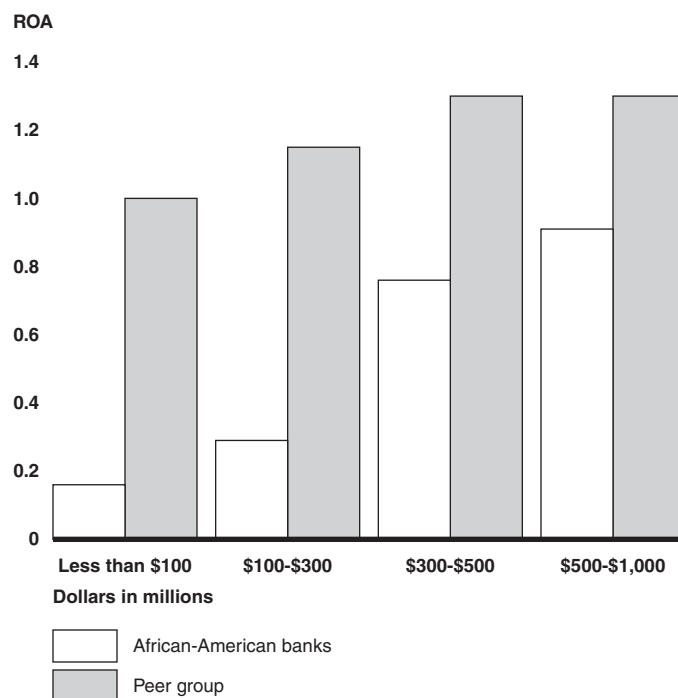
The profitability of African-American banks has generally been below that of their peers in all size categories (fig. 3).²¹ African-American banks with less than \$100 million in assets—which constitute 61 percent of all

²⁰The findings from our analysis of ROAs were consistent with our analysis of another measure of profitability—return on equity (ROE). ROE represents the bank’s net income divided by shareholders’ equity. As with ROA comparisons, small minority banks had on average lower ROEs than their peers (3.83 versus 8.09). And consistent with our ROA analysis, among small minority banks, African-American (ROE of 1.54), Asian-American (0.72), and Hispanic-American banks (6.11) had lower ROEs than Native American (8.69) and women-owned institutions (8.39). Further, African-American banks with assets of between \$100 million and \$300 million had ROEs that were significantly lower, on average (3.45), than those of their peers (11.03).

²¹In 2005, African-American banks did not occupy all asset size categories. The largest African-American banks had less than \$1 billion in assets, and these banks were not found in the largest size categories: \$1 billion to \$10 billion and greater than \$10 billion.

African-American banks—had an average ROA of 0.16 percent, while their peers averaged 1.0 percent. Similarly, African-American banks with assets of between \$100 million and \$300 million—which constituted 26 percent of all African-American banks—had ROAs that were 75 percent lower than those of their peers. While profitability improved among larger categories, the profitability of African-American banks with assets of \$300 million or more was lower than that of their peers. Our analysis of FDIC data for 2000 and 1995 also found that African-American banks of all sizes had lower ROAs than their peers. For example, in 2000 African-American banks with assets of between \$100 million and \$300 million had an average ROA that was about half of their peers’ average of 1.2 percent.

Figure 3: Average ROA of African-American Banks and Peer Banks by Asset Size, 2005



Source: GAO analysis of FDIC data.

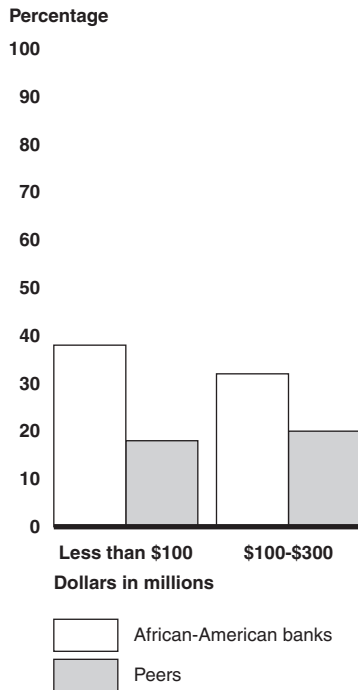
Higher Loan Loss Reserves, Operating Costs, and Increased Competition May Help Explain Lower Profitability of Certain Minority Banks

Our analysis of 2005 FDIC data suggests some possible reasons for the differences in profitability between some minority banks and their peers.²² For example, our analysis of 2005 FDIC data showed that African-American banks with assets of less than \$300 million—which constitute 87 percent of all African-American banks—had significantly higher loan loss reserves as a percentage of their total assets than the average for their peers (fig. 4).²³ Although having higher loan loss reserves may be necessary for the safe and sound operation of any particular bank, because loan loss reserves are counted as expenses, higher reserves lower bank profits. Most Asian-American, Hispanic-American, Native American, and women-owned banks had loan loss reserves that were closer to the average for their peer group in 2005.

²²While our review offers possible explanations for lower levels of profitability among some minority banks, it does not attempt to fully explain the differences among various minority groups or sizes of minority banks.

²³The term “loan loss reserves” refers to the allowance each bank must maintain to absorb estimated credit losses associated with its loan and lease portfolio.

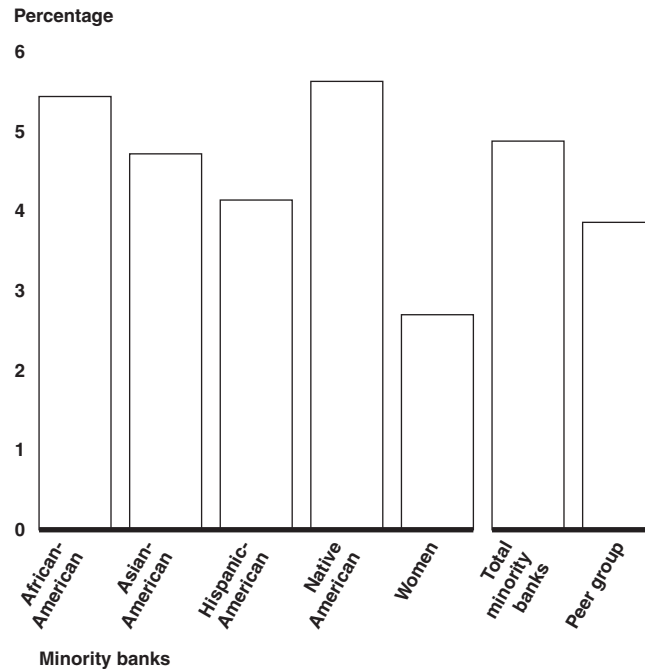
Figure 4: Average Loan Loss Reserves as a Percentage of Assets for African-American and Peer Banks, 2005



Source: GAO analysis of FDIC data.

We also found some evidence that higher operating expenses may affect the profitability of some minority banks. Operating expenses—expenditures for items such as administrative expenses and salaries—are typically compared to an institution’s total earning assets, such as loans and investments, to indicate the proportion of earning assets banks spend on operating expenses. As figure 5 indicates, many minority banks with less than \$100 million in assets had higher operating expenses than their peers in 2005. Specifically, the average ratio of minority banks’ operating expenses to earning assets was 4.88 percent, compared with an average 3.86 percent for the peer group, or a difference of 21 percent.

Figure 5: Average Operating Expenses Relative to Earning Assets of Banks with Assets Less than \$100 million, 2005



Source: GAO analysis of FDIC data.

Small African-American and Asian-American banks had higher operating expenses than their peers (41 and 20 percent higher, respectively), while operating expenses for small Hispanic-American banks were closer to their peers (7 percent higher). Data on the operating expenses of small women-owned banks were lower than their peers, while Native American banks had higher operating expenses, although, as we have seen, both Native American and women-owned banks were the most profitable of small minority banks. Because larger African-American banks were relatively less profitable than their peers, we also reviewed FDIC data on their operating expenses in 2005. The FDIC data indicate that African-American banks with assets of between \$100 million and \$500 million had operating expense ratios that exceeded those of their respective peer groups by 20 percent or more. Other studies corroborated our findings

that some minority banks operate in more challenging markets and may face higher operating costs.²⁴

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

Along with these factors, minority bank officials we contacted cited other factors that could limit their profitability. First, many minority banks indicated competition from larger banks, credit unions, and nonbanks as their institution's greatest challenge. In particular, minority bank officials said that larger banks, in response to Community Reinvestment Act (CRA) incentives, were increasingly posing competitive challenges among the banks' traditional customer base.²⁵ The bank officials said that larger banks could offer loans and other financial products at more competitive prices because these banks could raise funds at lower rates and had advantageous operational efficiencies. Second, some African-American, Asian-American, and Hispanic-American banks cited attracting and retaining quality staff as a challenge to profitability. Officials from one Hispanic-American bank said that the difficulty of attracting qualified new staff restricted the bank's growth. An Asian-American banker said that

²⁴Zahid Iqbal, Kizhanathan V. Ramaswamy, and Aigbe Akhigbe, "The Output Efficiency of Minority-Owned Banks in the United States," *International Review of Economics and Finance*, vol. 8 (1999) p. 113; Iftexhar Hasan and William C. Hunter, "Management Efficiency in Minority- and Women-owned banks," *Economic Perspectives*, vol. 20 (1996). Edward C. Lawrence, "The Viability of Minority-Owned Banks," *The Quarterly Review of Economics and Finance*, vol. 37, no. 1 (1997).

²⁵Section 807 of the Community Reinvestment Act of 1977 requires the federal banking regulators in connection with their examination of each institution they supervise to assess the institution's record of meeting the credit needs of the entire community it serves, including moderate- and low-income neighborhoods. Pub. L. No. 95-128, § 807, 91 Stat. 1147 (codified as amended at 12 U.S.C. § 2906).

many Asian-American banks tended to focus on the Asian-American market, potentially limiting the pool of qualified applicants.

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

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

FDIC has established the most comprehensive efforts among the bank regulators to support minority banks and also leads interagency efforts to coordinate agencies' activities. OTS also has developed several specific initiatives to support minority banks. While not required to do so by Section 308 of FIRREA, OCC and the Federal Reserve have taken some steps to support minority banks, such as holding occasional conferences for Native American banks, and are planning additional efforts. Treasury, which FIRREA stipulates is to consult with FDIC and OTS on preserving minority banks, no longer does so on a routine basis, but Treasury officials told us that the agency does confer with the banking agencies on an as-needed basis. Although recently FDIC has proactively sought to assess the effectiveness of its efforts to support minority banks, none of the regulators routinely survey institutions they regulate to obtain comprehensive performance information on their minority bank efforts, nor have they established outcome-oriented performance measures to gauge results in relation to pre-established targets. As a result, the regulators are not well positioned to assess the results of their efforts to support minority banks or identify potential areas for improvement.

FDIC Has the Most Comprehensive Minority Banking Support Efforts

Of the four banking regulators, FDIC—which supervises 109 of 195 minority banks—has developed the most extensive efforts to support such institutions (fig. 6). FDIC also has taken the lead in coordinating regulators' efforts in support of minority banks, including leading a group of all the banking regulators that meets semiannually to discuss individual agency initiatives, training and outreach events, and each agency's list of minority banks. FDIC and OTS have established national and regional coordinators to implement their policies to support minority banks and

provide routine technical and other outreach procedures for the institutions that they regulate. OCC officials we contacted said that they believed that minority banks could play an important role in providing financial services to minorities and other groups, and Federal Reserve officials told us that they adhered to the spirit of Section 308 of FIRREA. While neither agency has developed support efforts designed specifically for all the minority institutions that they regulate, both agencies provide technical assistance and educational services to minority banks upon request, as they do for all of their supervised banks, and have undertaken efforts in support of some types of minority banks. Both agencies also told us that they were planning additional efforts to support minority institutions.

Figure 6: Banking Regulators' Efforts to Support Minority Banks

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

Source: GAO.

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

The following briefly describes the regulators' minority bank support programs, as listed in figure 6.

Policy Statements

FDIC, OTS, and OCC all have policy statements that outline the agencies' efforts with respect to minority banks. The policy statements discuss how the regulators identify minority banks, participate in minority bank events, provide technical assistance, and work toward preserving the character of minority banks during the resolution process. OCC officials told us that

they developed their policy statement in 2001 after an interagency meeting of the federal banking regulators on minority bank issues. Both FDIC and OTS issued policy statements in 2002.

Staffing Structure

FDIC has a national coordinator in Washington, D.C., and coordinators in each regional office from its Division of Supervision and Consumer Protection to implement the agency's minority bank program. Among other responsibilities, the national coordinator regularly contacts minority bank trade associations about participation in events and other issues, coordinates with other agencies, maintains FDIC's list of all insured banks that are considered to be minority under the agency's definition, and compiles quarterly reports for the FDIC chairman based on regional coordinators' reports on their minority bank activities. Similarly, OTS has a national coordinator in its headquarters and supervisory and community affairs staff in each region who maintain contact with the minority banks that OTS regulates. The national coordinator participates in the interagency coordination meetings with the other banking regulators and works with the regional community affairs staff to compile the agency's annual report to Congress on minority bank issues. OCC and the Federal Reserve do not have similar structures in place. However, OCC does have an agency ombudsman who maintains contact with minority banks and a senior adviser for external outreach and minority affairs who participates in the interagency coordination meetings. Officials from the Federal Reserve—which directly supervises the fewest number of minority banks—told us that Federal Reserve staff at the district level maintain frequent contact with minority banks under their purview and Federal Reserve staff participate in interagency coordination meetings.

Web Pages

FDIC has a public Web page dedicated specifically to minority banking issues that includes FDIC's list of all minority banks, staff contacts, links to trade associations and other relevant sites, and a link to provide feedback on FDIC's minority banking efforts. FDIC officials told us that the feedback link has been on their Web page since 2002 but that the agency rarely receives feedback from minority banks. FDIC is planning to improve its Web page by adding a link to FDIC's home page and additional resources, including research highlighting issues relevant to minority banks.

OCC also has a Web page that contains some information on minority bank issues. The Web site containing this page, BankNet, is available to registered national banks. OCC's Web site is not as extensive as FDIC's but does contain a list of minority banks that OCC regulates, links to OCC's minority bank policy statement, and a comparative analysis tool to

Minority Bank Events and Training

compare the financial performance of minority banks with that of their peers.

FDIC has taken the lead role in sponsoring, hosting, and coordinating with the other regulators events in support of minority banks. These events have included

- A national conference in 2001, which was attended by about 70 minority banks supervised by different banking regulators and in which all four banking regulators participated. Participants discussed challenges, shared best practices, and evaluated possible actions regulators could take to preserve minority banks.
- In August 2006, FDIC sponsored a national conference for minority banks in which representatives from OTS, OCC, and the Federal Reserve participated.
- Regional forums and conferences, which were organized after 2002 to follow up on the national conference and implement initiatives set forth in FDIC's 2002 policy statement. FDIC officials told us that these events are held annually by each of their regional offices. The content of these events has varied among regions, but has included issues relating to safety and soundness and compliance examinations, community affairs, deposit insurance, and FDIC's minority banking program. Representatives from other banking agencies have participated in these events.
- The Minority Bankers Roundtable (MBR) series, which FDIC officials told us was designed to provide insight into the regulatory relationship between minority banks and FDIC and explore opportunities for partnerships between FDIC and these banks. In 2005, FDIC held six roundtables around the country for minority banks supervised by all of the regulators.

Other regulators have also held events in support of minority banks. For example:

- In May 2006, the Director, Deputy Director, and the Northeast Regional Director of OTS held a meeting in New York in which all of the OTS-regulated minority banks in the region participated. The issues discussed included ways to strengthen community development and investment activities and partnerships with community-based organizations, and other issues of concern.

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- In 2002, OCC held a forum with the North American Native Bankers Associations and a Native American bank and have created publications on banking in Native American communities. In February 2006, OCC held an event for several chief executive officers from African-American national banks to meet with OCC's Executive Committee and the Comptroller of the Currency to discuss the challenges these banks faced.
 - Federal Reserve banks have hosted workshops and other events for Native American banks, as well as produced publications on Native American banking.

Outside of the customary training and educational programs that regulators make available to all banks, FDIC is the only regulator to convene training sessions only for minority banks (including minority banks not regulated by FDIC) that the banks may attend free of charge. FDIC officials told us that the agency's regional offices have held several such training sessions on an as-needed basis or when suggested at minority bank events. For example, FDIC's Dallas regional office has conducted 1-day seminars in 2004 and 2005 specifically for minority banks that included presentations on compliance, the Bank Secrecy Act and anti-money-laundering issues, and economic and banking conditions.

Technical Assistance and Other Outreach Procedures

All of the federal banking regulators told us that they provided their minority banks with technical assistance if requested, but only FDIC and OTS have specific procedures for offering this assistance. More specifically, FDIC and OTS officials told us that they proactively seek to make minority banks aware of such assistance through established outreach procedures outside of their customary examination and supervision processes. FDIC also has a policy that requires its regional coordinators to ensure that examination case managers contact minority banks 90 to 120 days after an examination to offer technical assistance in any problem areas that were identified during the examination. This policy is unique to minority banks. As part of their quarterly reports to headquarters, FDIC regional coordinators report on how many offers of technical assistance they have made to minority banks and how many banks requested the assistance. More generally, FDIC staff contact the minority banks they supervise at least once a year to offer to have a member of regional management meet with banks' board of directors and to familiarize the institutions with FDIC's initiatives.

OTS officials told us that technical assistance is the focus of their minority banks efforts. According to the agency's policy statement, OTS monitors the financial condition of minority banks to identify those that might

benefit from a program of increased support and technical assistance. OTS regional staff contact minority banks they supervise annually to make them aware of their minority bank efforts and to offer to meet with the banks' boards of directors to discuss issues of interest and types of assistance OTS can provide.

Additionally, FDIC and OTS officials told us that they have taken proactive steps to assist individuals or groups that have filed applications for deposit insurance or to acquire a national thrift charter. FDIC officials said that they had developed a package of assistance to help smaller institutions, including many minority banks, overcome challenges associated with the FDIC insurance application process. OTS officials said that they had provided substantial assistance to a minority group that filed to acquire a national thrift charter and had extended established application deadlines to assist the group. FDIC officials said that the agency interprets FIRREA's general goal to "promote and preserve" minority banks as a charge to support those minority banks already in existence or those that have filed deposit insurance applications rather than as a charge to actively seek out minority groups or individuals to form new banks. FDIC officials explained that the agency was an insurer, not a chartering authority, and that it would probably be inappropriate to encourage potential applicants to choose one banking charter over another. OTS officials told us that the agency currently does not promote the thrift charter to any groups but is considering the extent to which it might do so in the future.

OCC and the Federal Reserve provide technical assistance to all of their banks, but they currently have not established outreach procedures for all their minority banks outside of the customary examination and supervision processes. However, OCC officials told us that the agency would be designing an outreach plan for all of OCC's minority banks this fiscal year. Federal Reserve officials told us that Federal Reserve districts conduct informal outreach to their minority banks and consult with other districts on minority bank issues as needed. The officials said that four reserve banks had begun a pilot outreach program specifically tailored to minority banks that would include technical assistance, training, advisory visits, and ongoing analysis. Staff are in the process of conducting interviews with minority banks to obtain input on their draft program.

OCC and Federal Reserve officials told us that, like FDIC and OTS, their agencies also provided assistance to minority groups during the application process and that they put forth extra effort in certain cases. For example, Federal Reserve officials told us that they had recently assisted 15 sovereign tribal nations in establishing a Native American

Policies to Preserve the
Minority Character of Troubled
Banks

bank. And like FDIC and OTS, neither OCC nor the Federal Reserve seeks out individuals to form either minority or nonminority banks. OCC agency officials said it would not be appropriate for their agency to do so, and Federal Reserve officials told us that it was not within their jurisdiction to do so, as they did not have authority to charter banks. The Federal Reserve, however, has conducted activities such as providing information to Native American, Muslim, and Asian-American communities on entering the banking business.

FDIC has developed policies for failing banks that are consistent with FIRREA's requirement that the agency work to preserve the minority character of minority banks in cases of mergers and acquisitions. For example, FDIC maintains a list of qualified minority banks or minority investors that may be invited to bid on the assets of troubled minority banks that are expected to fail. Officials from several minority banks we contacted said that FDIC had invited them to bid on failing minority banks. However, as we pointed out in our 1993 report, FDIC is required to accept the bids on failing banks that pose the lowest expected cost to the Deposit Insurance Fund.²⁶ As a result, all bidders, including minorities, are subject to competition. FDIC provided us with a list of minority banks that had failed from 1990 to 2005. Of the 20 minority banks that failed during this period, 12 were acquired by nonminority banks and 5 by minority banks, while 3 were resolved through deposit payoffs. According to FDIC, the most recent failures of minority banks were two institutions in 2002, neither of which retained its minority status.

OTS and OCC's policy statements on minority banks describe how the agencies are to work with FDIC to identify qualified minority banks or minority investors to acquire minority banks that are failing. Federal Reserve officials told us that they do not have a similar written policy, given the small number of minority banks the agency supervises. However, agency officials said that they work with FDIC to identify qualified minority banks or investors to acquire failing minority banks.

Officials from the four banking agencies said that they also tried to assist troubled minority banks to help improve their financial condition before a bank deteriorated to the point at which a resolution through FDIC was

²⁶Section 13(c) of the Federal Deposit Insurance Act [12 U.S.C. § 1823(c)], as amended in 1991, prohibits FDIC from engaging in the assisted resolution of any failed depository institution unless FDIC determines that the total amount of expenditures and obligations it will incur is the least costly alternative.

necessary. For example, officials from OCC, Federal Reserve, and OTS said that they provided technical assistance to such institutions or tried to identify other minority banks or investors that might be willing to acquire or merge with them.

Treasury No Longer Regularly Consults with Regulators on Minority Bank Issues but Does Consult on an As-Needed Basis

Section 308 of FIRREA required the Secretary of the Treasury to consult with FDIC and OTS to determine the best methods for meeting FIRREA's goals in support of minority banks. In 1993, we reported that Treasury initially convened interagency meetings to facilitate communication among the federal banking regulators on minority banking issues. Treasury convened four such meetings between 1990 and 1993 at which regulators exchanged ideas, discussed policies regarding minority banks, and worked to coordinate their efforts. However, during our work for this report, Treasury officials said that the department no longer convened or participated regularly in interagency discussions on minority banking issues, although it still consulted with the federal banking regulators as issues arose. Treasury officials explained that while the nature of the FIRREA consulting requirement could be open to some interpretation, given that Treasury had discontinued formal consultations in 1993, the general view within the department is that ongoing consultations were not required. Further, Treasury officials said the department's authority to assist the banking regulators in preserving the minority character of failing minority banks was limited by federal legislation that prohibits the Secretary of the Treasury from intervening in matters or proceedings that are before the Director of OTS or the Comptroller of the Currency, unless otherwise specifically provided by law.²⁷ According to these officials, Section 308 of FIRREA does not override this prohibition, which is also consistent with Treasury's policy not to intervene in case-specific matters before the banking agencies.

Regulators Do Not Assess Efforts through Comprehensive Surveys or Outcome-Oriented Performance Measures

While FDIC has recently been proactive in assessing its support efforts for minority banks, none of the regulators have routinely and comprehensively surveyed their minority banks on all issues affecting the institutions, nor have the regulators established outcome-oriented performance measures. Evaluating the effectiveness of federal programs is vitally important in order to manage programs successfully and improve program results. To this end, in 1993 Congress enacted the Government

²⁷12 U.S.C. § 1462a(b)(3) and 12 U.S.C. § 1.

Performance and Results Act, which instituted a governmentwide requirement that agencies report on their results in achieving their agency and program goals.²⁸ Agencies can evaluate the effectiveness of their efforts by establishing performance measures or through program evaluation.²⁹ Performance measures are established in order to assess whether a program has achieved its objectives and are expressed as measurable, quantifiable indicators. Outcome-oriented performance measures assess a program activity by comparing it to its intended purpose or targets.³⁰ Program evaluations are systematic studies that are conducted periodically to assess how well a program is working. In our 1993 report, we recommended that FDIC and OTS periodically survey minority banks that they regulate to help assess their support efforts. Surveys are an instrument by which agencies may assess their efforts and obtain feedback from the recipients of their efforts on areas for improvement.

As part of its assessment methods, FDIC has recently conducted roundtables and surveyed minority banks on aspects of its minority bank efforts, as follows:

- In 2004, in response to an FDIC Corporate Performance Objective to enhance minority bank outreach efforts, FDIC completed a review of its minority bank outreach program that included a survey of 20 minority banks from different regulators. Seven banks responded. On the basis of the 2004 review, FDIC established the MBR program to gain insights into issues affecting minority banks and obtain feedback on its efforts.
- In 2005, FDIC requested feedback on its minority bank efforts from institutions that attended the agency's six MBRs (which approximately one-third of minority banks attended). The agency also sent a survey letter to all minority banks to seek their feedback on several proposals to better serve such institutions, but only 24 minority banks responded. The proposals included holding another national minority bank conference, instituting a partnership program with universities, and developing a

²⁸GAO, *Managing for Results: Enhancing Agency Use Performance Information for Management Decision Making*, [GAO-05-927](#) (Washington, D.C.: Sept. 9, 2005); and GAO, *The Results Act: An Evaluator's Guide to Assessing Agency Annual Performance Plan*, [GAO/GGD-10.1.20](#) (Washington, D.C.: April 1998).

²⁹GAO, *Performance Measurement and Evaluation: Definition and Relationship*, [GAO-05-739SP](#) (Washington, D.C.: May 2005).

³⁰Government Performance and Results Act of 1993 § 7, 39 U.S.C. 2801(1).

minority bank museum exhibition.³¹ FDIC officials said that they used the information gathered from the MBRs and the survey to develop recommendations for improving programs and developing new initiatives.

According to FDIC officials, these recommendations, which have been approved and are expected to be implemented by the end of 2006, include

- enhancing the agency's minority bank Web page by (1) adding a link to FDIC's home page, (2) including a calendar of minority bank events, and (3) adding more resource links, such as links to research highlighting issues relevant to minority banks;
- hosting another national conference for minority banks—the conference was held in August 2006;
- continuing the MBR series and hosting six more roundtables in 2006; and
- instituting the University Partnership Program, through which FDIC and minority bank staff would advise and lecture at universities that have an emphasis on minority student enrollment. The goals of the program include enhancing recruiting efforts for minority banks and FDIC and increasing students' knowledge base of banking in general and minority banks in particular.

While recently FDIC has taken steps to assess the effectiveness of its minority bank support efforts, we identified some limitations in the agency's approach. For example, in its surveys of minority banks, the agency did not solicit feedback on key aspects of its support efforts, such as the provision of technical assistance. Moreover, FDIC has not established outcome-oriented performance measures to gauge the effectiveness of its various support efforts. As discussed previously, in its quarterly reports FDIC has provided output measures that track the number of technical assistance offers it makes to minority banks and the number of banks making use of the assistance. FDIC also requires regional case managers to follow up with minority banks 90 to 120 days after examinations to offer technical assistance to address deficiencies that

³¹This project was to develop a museum exhibition that would trace the history of minority banks in the United States. However, after conducting additional research on this proposal, FDIC is currently not pursuing the project, in part because of limited interest from some minority banks.

have been identified in examinations. However, FDIC does not report agencywide on the extent to which minority banks are able to resolve any deficiencies found during the examination process.

FDIC officials told us while the agency has not conducted surveys regarding technical assistance or developed related performance measures, technical issues may be resolved during the course of the examination process. Further, FDIC officials said that throughout the examination process and through other agency contacts, minority banks may informally provide feedback on the effectiveness of any assistance provided. However, without surveys or agencywide outcome-oriented performance measures, FDIC management may lack comprehensive and reliable information necessary to help ensure that agency staff provide effective technical assistance to minority banks to help them resolve problems identified in examinations or through other means. Further, the public and stakeholders, such as Congress, may not be informed as to the effectiveness of the agency's technical assistance, as well as other efforts in support of minority banks.

In 1994-1995, OTS interviewed the 40 minority banks that it regulated to obtain their views on the agency's support efforts. The interviews covered topics such as the banks' overall impressions of the agency's efforts, technical assistance, and application issues and asked for suggestions for improving OTS's efforts to support minority banks. However, OTS has not conducted a similar effort since that time. OTS officials told us that in 2003 and 2004 the agency conducted surveys of all OTS-regulated institutions and that a 2006 survey is in process. Because of restrictions imposed by the Office of Management and Budget on the amount of information that can be collected from institutions, OTS officials told us that they surveyed all of their banks at the same time. The surveys solicited feedback on OTS's examination process and provided opportunities for banks to make suggestions for improving OTS's operations. While OTS officials stated that the results from these surveys could be sorted by minority status, and has plans to do so and use the information for program enhancement, such analysis has not been conducted.

As required under Section 3 of FIRREA, OTS provides annual reports to Congress that, among other things, track technical assistance offers made to minority banks. But OTS has also not established quantifiable outcome-oriented measures to gauge the quality and effectiveness of technical assistance.

OCC and Federal Reserve officials told us that they had not surveyed the minority banks that they regulated to assess the effectiveness of their support efforts, and neither agency has established performance measures related to minority banking efforts. OCC officials explained that the agency did not survey minority banks because it did not treat these banks any differently from other banks. However, as described earlier, OCC has a written policy statement for minority banks, information on a Web page for such institutions, and has held events on Native American banking. OCC officials also told us that they recently convened a forum for African-American bankers and were in the process of developing an outreach program specifically for its minority banks.

By not periodically surveying and obtaining comprehensive feedback from a substantial number of minority banks or through developing outcome-oriented performance measures for various support efforts (such as technical assistance), the regulators are not well positioned to assess their support efforts or identify areas for improvement. Further, the regulators cannot take corrective action as necessary to provide better support efforts to minority banks.

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

Minority bank survey respondents identified potential limitations in the regulators' efforts to support them and related regulatory issues, such as examiners' understanding of issues affecting minority banks, which would likely be of significance to agency managers and warrant follow-up analysis. Minority banks regulated by FDIC were generally more positive about the agency's efforts than other banks were about their regulators' efforts. Still, only about half of FDIC-regulated banks gave their regulator very good or good marks, whereas about a quarter of banks regulated by other agencies gave the same ratings. Although some regulators emphasized technical assistance as a key component of their efforts to support minority banks, relatively few institutions used such assistance. Further, in our interviews and open-ended survey responses, banks reported some specific concerns about regulatory issues related to their minority status. In particular, survey respondents were concerned that (1) examiners, as was also noted in our 1993 report, did not always understand their operating environment or the challenges that minority banks faced in their communities and might need more training on the topic, and (2) a provision of CRA designed to facilitate relationships between minority banks and other banks has not produced the desired results.

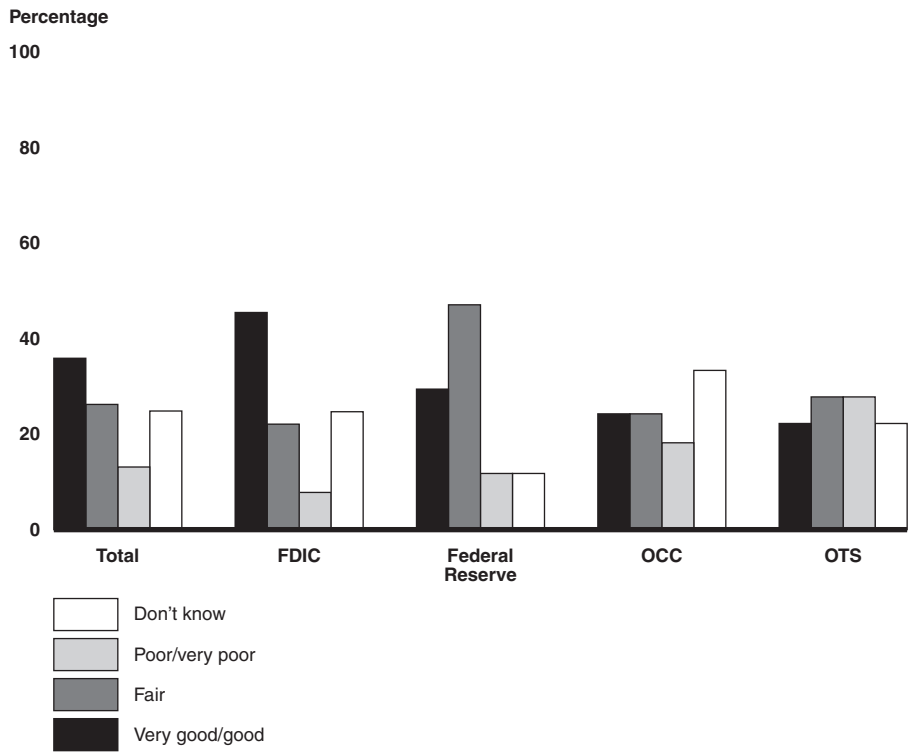
About a Third of Survey Respondents Viewed Regulators' Minority Bank Support Efforts as Very Good or Good, and Technical Assistance Usage Appeared Low

When minority bankers were asked to rate regulators' overall efforts to support minority banks, responses varied. Some 36 percent of survey respondents described the efforts as very good or good, 26 percent described them as fair, and 13 percent described the efforts as poor or very poor (fig. 7). A relatively large percentage—25 percent—responded “don't know” to this question. Banks' responses varied by regulator, with 45 percent of banks regulated by FDIC giving very good or good responses, compared with about a quarter of banks regulated by other agencies.³² However, more than half of FDIC-regulated banks and about three-quarters of the other minority banks responded that their regulator's efforts were fair, poor, or very poor or responded with a “don't know.” In particular, banks regulated by OTS gave the highest percentage of poor or very poor marks, while banks regulated by the Federal Reserve most often provided fair marks.³³

³²We were requested to report on all the banking regulators' minority bank efforts and to obtain minority banks' views on these efforts. However, the banking regulators have different definitions for banks they consider to be minority and eligible to participate in their minority bank efforts (see app. II). In our population of minority banks we included any bank considered by at least one regulator to be eligible to participate in its efforts. In some cases, we surveyed minority banks that were not considered by their primary regulator to be minority institutions but were considered to have minority status or be eligible for participation in another regulator's efforts. Nine of the 80 FDIC minority banks responding were such cases, as were 4 of the 18 Federal Reserve minority banks, 1 of the 18 OTS banks, and 2 of the 33 OCC banks. We reviewed these banks' responses to key survey questions in total and by each regulator and found that they did not have a material negative or positive impact on the survey results, and would generally have changed results by 1 or 2 percentage points. For example, if these banks were removed from the survey results, the percentage of minority banks who responded that their regulator's overall efforts to support minority banks were very good or good would be 1 percentage point higher. In a few cases, the inclusion of banks not viewed by their regulators as minority institutions changed the survey results by regulator by 4 or 5 percentage points in a manner favorable to the regulator. However, the inclusion of such banks did not have a material effect on the overall results. For example, if banks not viewed by FDIC as minority banks were removed from the survey results, the percentage of institutions rating the agencies' overall support efforts as very good or good would increase from 45 percent to 49 percent.

³³See appendix III for the survey responses in this report discussed as the number of minority bank responses.

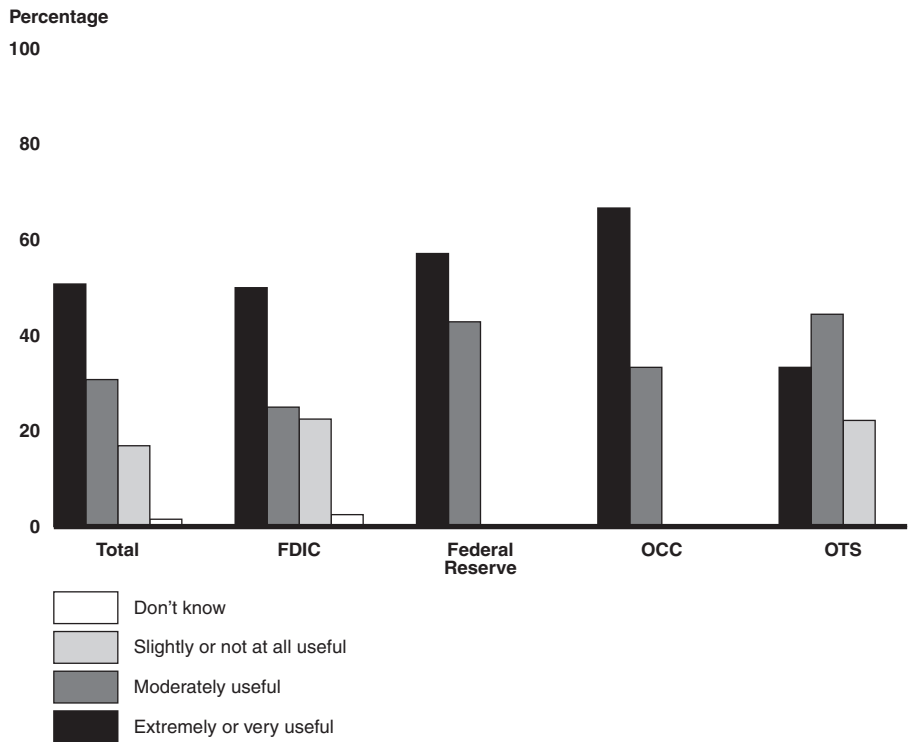
Figure 7: Minority Banks' Ratings of Support Efforts, by Regulator



Source: GAO.

Nearly half of minority banks reported that they attended FDIC roundtables and conferences designed for minority banks, and about half of the 65 respondents that attended these events found them to be extremely or very useful (fig. 8). Almost a third found them to be moderately useful, and 17 percent found them to be slightly or not at all useful. One participant commented, “The information provided was useful, as was the opportunity to meet the regulators.” Many banks also commented that the events provided a good opportunity to network and share ideas with other minority banks.

Figure 8: Usefulness of FDIC’s Roundtables and Conferences, by Regulator



Source: GAO.

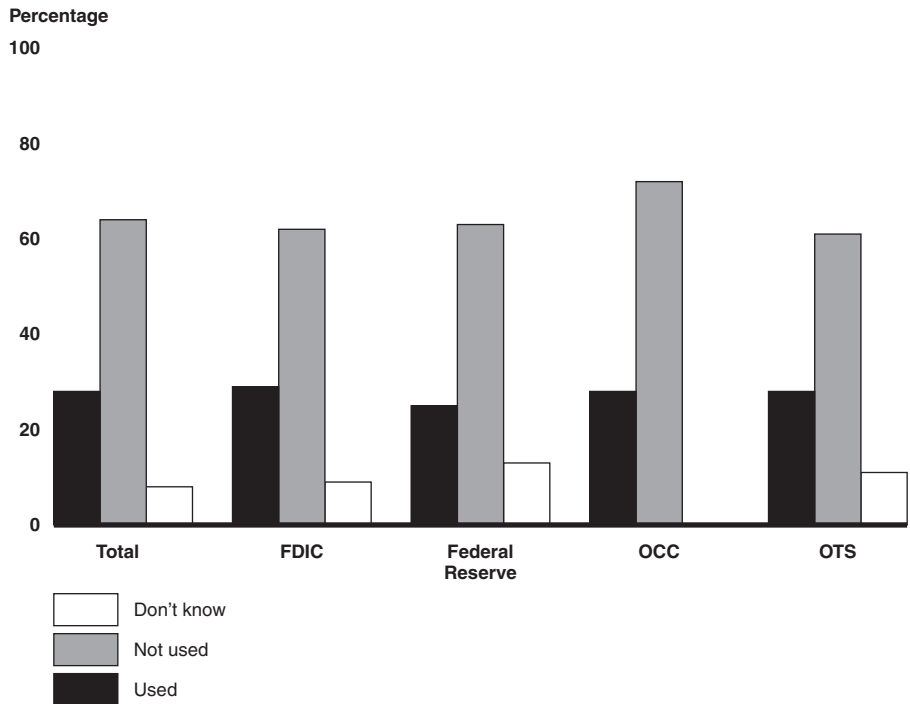
We noted that minority banks frequently reported participating in training and education events and that they found these events extremely or very useful, even though most of these programs were not designed specifically for minority banks. About 58 percent reported participating in their regulator’s training and education activities—a higher percentage than had participated in FDIC roundtables and conferences. Of this group, 76 percent found training and education to be extremely or very useful, 15 percent found it to be moderately useful, 6 percent found it to be slightly useful, and 3 percent did not know.

While FDIC and OTS emphasized technical services as key components of their efforts to support minority banks, less than 30 percent of the institutions they regulate reported using such assistance within the last 3 years in our survey (fig. 9). Minority banks regulated by OCC and the Federal Reserve reported similarly low usage of the agencies’ technical assistance services. However, of the few banks that used technical

assistance—41—the majority rated the assistance provided as extremely or very useful.³⁴ Further, although small minority banks and African-American banks of all sizes have consistently faced financial challenges and may benefit from certain types of assistance, these banks also reported low rates of usage of the agencies' technical assistance. In addition, both regulators and minority banks explained that minority banks often have difficulty attracting and retaining qualified staff, and given this fact, technical assistance could be particularly important in providing these banks with guidance tailored to their staff's specific needs. While our survey did not address the reasons that relatively few minority banks appear to use the agencies' technical assistance and banking regulators cannot compel banks under their supervision to make use of offered technical assistance, the potential exists that many such institutions may be missing opportunities to learn how to correct problems that limit their operational and financial performance.

³⁴The survey did find that minority banks regulated by FDIC and OTS were more aware of the agencies' technical assistance outreach efforts than institutions regulated by OCC and the Federal Reserve. This finding is consistent with the fact that FDIC and OTS have formalized technical assistance outreach efforts, while the other regulators do not.

Figure 9: Minority Banks' Use of Technical Assistance, by Regulator



Source: GAO.

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

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

The bank officials said that examiners tended to treat minority banks like any other bank when they conducted examinations and thought such comparisons were not appropriate. For example, some bank officials whose institutions serve immigrant communities said that their customers tended to do business in cash and carried a significant amount of cash

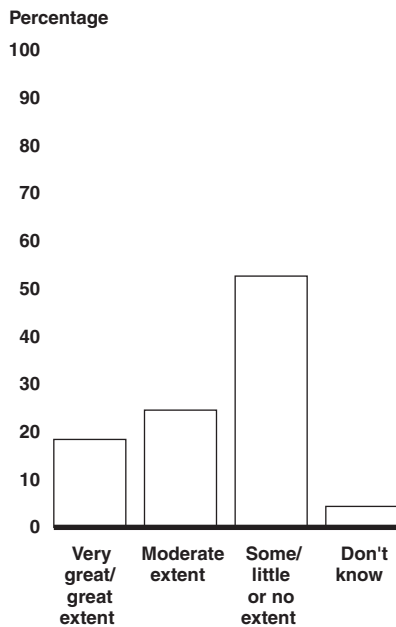
because banking services were not widely available or trusted in the customers' home countries. Bank officials said that examiners sometimes commented negatively on the practice of customers doing business in cash or placed the bank under increased scrutiny with respect to the Bank Secrecy Act's requirements for cash transactions.³⁵ While the bank officials said that they did not expect preferential treatment in the examination process, several suggested that examiners undergo additional training so that they could better understand minority banks and the communities that these institutions served. FDIC has conducted such training for its examiners. In 2004, FDIC invited the president of a minority bank to speak to about 500 FDIC examiners on the uniqueness of minority banks and the examination process. FDIC officials later reported that the examiners found the discussion helpful. According to a Federal Reserve official, the organization is developing guidance to better educate examination staff about the various types of minority institutions and minority communities. Also, according to an OCC official, OCC has an initiative under consideration to provide training for its examiners on minority bank issues.

Many survey respondents also said that a provision in the Community Reinvestment Act (CRA) that was designed to assist their institutions was not effectively achieving this goal. CRA requires bank regulators to encourage institutions to help meet credit needs in all areas of the communities they served. The act includes a provision allowing regulators conducting a CRA examination to give consideration to banks that assist minority banks through capital investment, loan participations, and other ventures that help meet the credit needs of local communities. Despite this provision, only about 18 percent of survey respondents said that CRA had—to a very great or great extent—encouraged other institutions to invest in or form partnerships with their institutions, while more than half said that CRA encouraged such activities to some, little, or no extent (fig. 10). Some minority bank officials said that current interagency guidance on the provision granting consideration for investments in minority banks should be clarified to assure banks that they will receive CRA

³⁵The body of law commonly referred to as the Bank Secrecy Act (BSA) is codified at 31 U.S.C. §§ 5311-5322 and 12 U.S.C. §§ 1829b and 1951-1959. The purpose of BSA is to prevent financial institutions from being used as intermediaries for the transfer or deposit of money derived from criminal activity and to provide a paper trail for law enforcement agencies in their investigations of possible money laundering. The federal banking regulators review institutions for compliance with the BSA as part of their safety and soundness examinations or in targeted examinations focused on BSA compliance.

consideration for such investments. Some minority banks believe that CRA does not provide incentives for nonminority banks to make investments in minority banks that operate in other parts of the country. A minority bank official said that the CRA provision does not clearly state that a bank making an investment in a minority bank that is outside of its CRA assessment area will receive consideration for such investments in its CRA compliance examinations. However, officials from each of the four regulators said that they had interpreted the provision in CRA as allowing consideration for such out-of-area investments in minority banks. OCC recently published guidance clarifying this issue, and FDIC officials said that the agencies would clarify the guidance provided to all CRA examiners across agencies on such investments.

Figure 10: Minority Banks' Evaluation of the Extent to Which CRA Has Encouraged Partnerships with Other Institutions



Source: GAO.

This report does not contain all results from the survey. The survey and a more complete tabulation of the results can be viewed at [GAO-07-7SP](#).

Conclusions

Federal banking regulators have adopted differing approaches to support minority banks but generally have not assessed their efforts using regular and comprehensive surveys of minority banks or outcome-oriented performance measures. FDIC, which along with OTS is required by FIRREA to help preserve and promote minority banks, has established the most comprehensive support efforts and has taken the lead on interagency initiatives. In this regard, FDIC appears to be serving a coordination and facilitation role for the banking agencies' efforts. OTS has also taken several steps to support minority banks, while OCC and the Federal Reserve, which are not subject to Section 308 of FIRREA, have, on their own initiative, taken some steps to support such institutions. Further, officials from OCC and the Federal Reserve, which collectively supervise about one-third of minority banks, stated that they recognize the importance of minority banks and are planning additional efforts to support them. While these efforts may help ensure that more minority banks receive support, it is important that when managing both existing and new programs, regulators assess their effectiveness. While FDIC has recently sought to evaluate its efforts through conducting surveys, these surveys have not addressed all key activities (including the provision of technical assistance), and the agency has not established outcome-oriented performance measures. None of the other agencies regularly or comprehensively surveys minority banks regarding its support efforts or has developed outcome-oriented performance measures. Consequently, the regulators are not well positioned to identify issues of concern to minority banks or to take corrective actions to improve their support efforts.

Our work identified potential limitations in the regulators' support efforts and related activities that would likely be of significance to agency managers and potentially warrant follow-up analysis and the initiation of corrective actions as necessary. For example, only about half of minority banks regulated by FDIC and only about a quarter regulated by the other agencies view their regulator's support efforts as very good or good. We also found that some issues identified in our 1993 report may still be potential limitations to the regulators' efforts. First, although regulators emphasize the provision of technical assistance services to minority banks, less than 30 percent of such banks have recently used such services. Small banks and African-American banks, which have struggled financially over the years and potentially stand to benefit most from additional technical assistance, are no more likely than other minority banks to use such assistance. While there may be a variety of reasons that minority banks do not take advantage of the regulators' technical assistance services and regulators cannot compel banks to use this

assistance, without soliciting further feedback from these banks, the regulators cannot identify these reasons, determine whether more banks would benefit from such assistance, or obtain suggestions for improvement. Second, both our 1993 report and our current analysis found that some minority banks believe that regulators have not ensured that examiners fully understand the challenges that such institutions often face in, for example, providing financial services in areas with high concentrations of poverty or to immigrant communities. Again, without further analysis and soliciting feedback from banks, regulators cannot identify possible areas where they can provide additional assistance or take corrective action. By establishing outcome-oriented performance measures to determine the extent to which they are achieving program goals, regulators could then measure the progress of their efforts and any results. Using existing interagency forums for coordination to assess minority bank support efforts and related regulatory activities could help ensure that all minority banks have access to the same opportunities while minimizing burdens on the regulators themselves.

Recommendation for Executive Action

We recommend that the Chairman of the FDIC, the Director of OTS, the Comptroller of the Currency, and the Chairman of the Federal Reserve regularly review the effectiveness of their minority bank support efforts and related regulatory activities and, as appropriate, assess the need to make changes necessary to better serve such institutions. In conducting such reviews, the regulators should consider

- conducting periodic surveys of such institutions to determine how they view regulators' minority support efforts and related activities, and/or
- developing outcome-oriented performance measures to assess the progress of their efforts in relation to program goals.

As part of these regular program assessments, the regulators may wish to focus on such areas as minority banks' overall views on support efforts, the usage and effectiveness of technical assistance services (particularly technical assistance provided to small minority banks and African-American banks), and the level of training provided to agency examiners regarding minority banks and their operating environments. Regulators may also wish to utilize existing interagency coordination processes in implementing this recommendation to help ensure consistent efforts and minimize burdens on agency staff.

Agency Comments and Our Evaluation

We provided a draft of this report to FDIC, OTS, OCC, and the Federal Reserve for comment, and they provided written comments that are reprinted in appendixes IV–VII. In their responses, the agencies further elaborated on their efforts to support minority banks and described planned initiatives. Further, FDIC, OTS, and OCC agreed to implement our recommendation, while the Federal Reserve commented that it would consider implementing the recommendation. The agencies also provided technical comments, which we have incorporated as appropriate. We also requested comments from the Department of the Treasury on the section of the draft report relevant to their activities under Section 308 of FIRREA. Treasury provided us with technical comments, which we have incorporated as appropriate.

We will provide copies to Chairman of the FDIC, the Director of OTS, the Comptroller of the Currency, the Chairman of the Federal Reserve, and the Secretary of the Department of the Treasury, and other interested congressional committees. We will also make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-7215 or scottg@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix VIII.



Acting Director, Financial Markets
and Community Investment

List of Requesters

The Honorable Barney Frank
Ranking Minority Member
Committee on Financial Services
House of Representatives

The Honorable Gary Ackerman
House of Representatives

The Honorable Joe Baca
House of Representatives

The Honorable Michael E. Capuano
House of Representatives

The Honorable Julia Carson
House of Representatives

The Honorable Wm. Lacy Clay
House of Representatives

The Honorable Emanuel Cleaver
House of Representatives

The Honorable Joseph Crowley
House of Representatives

The Honorable Artur Davis
House of Representatives

The Honorable Harold E. Ford, Jr.
House of Representatives

The Honorable Al Green
House of Representatives

The Honorable Luis V. Gutierrez
House of Representatives

The Honorable Ruben Hinojosa
House of Representatives

The Honorable Darlene Hooley
House of Representatives

The Honorable Steve Israel
House of Representatives

The Honorable Paul E. Kanjorski
House of Representatives

The Honorable Barbara Lee
House of Representatives

The Honorable Stephen F. Lynch
House of Representatives

The Honorable Carolyn B. Maloney
House of Representatives

The Honorable Carolyn McCarthy
House of Representatives

The Honorable Gregory W. Meeks
House of Representatives

The Honorable Brad Miller
House of Representatives

The Honorable Dennis Moore
House of Representatives

The Honorable Gwen Moore
House of Representatives

The Honorable Bernard Sanders
House of Representatives

The Honorable Debbie Wasserman Schultz
House of Representatives

The Honorable David Scott
House of Representatives

The Honorable Melvin L. Watt
House of Representatives

The Honorable Maxine Waters
House of Representatives

Appendix I: Objectives, Scope, and Methodology

The objectives of this report were to (1) review the profitability of minority banks over time, (2) identify the federal banking regulators' efforts to support minority banks and determine whether the regulators were evaluating the effectiveness of these efforts, and (3) obtain the views of minority banks on the federal regulators' minority banking support efforts and related regulatory issues.

To review the profitability of minority banks, in addition to undertaking a literature review, we analyzed financial data provided by the Federal Deposit Insurance Corporation (FDIC) for year end 2005, 2000, and 1995. Each bank is required to file consolidated Reports of Condition and Income (Call Report) data, and each thrift institution is required to file Thrift Financial Reports (Thrift Report) quarterly. We obtained Call and Thrift Report data from FDIC listing each minority bank's financial characteristics (such as return on assets, net income, and loan loss provisions), along with summary statistics for peer groups. Peer groups were formed by FDIC based on standard asset sizes used in FDIC reports (less than \$100 million, \$100 million-\$300 million, \$300 million-\$500 million, \$500 million-\$1 billion, \$1 billion-\$10 billion, greater than \$10 billion). The peer groups include minority and nonminority institutions.

Using these data, we classified the minority banks by asset size and minority status. To classify the banks by minority status, we used the regulators' designations and confirmed these classifications with a bank's survey response (if the banks responded to our survey). FDIC provided summary statistics for peer groups based on asset size. The peer groups included all banks of a given asset size, including minority banks. We did not attempt to remove minority banks from the peer group to simplify the analysis because minority banks are so few, it is unlikely that their inclusion in the peer group would change composite statistics for any peer group. We analyzed the profitability characteristics of each group and compared the summary statistics to the comparable statistics generated by FDIC for relevant peer groups.

Because information on minority banks was not available for both 2000 and 1995 from all federal banking regulators, for these periods we analyzed data only for those minority banks that were still operating as minority banks in 2005. On the basis of the regulators' lists, we were aware that not all of the banks were operating in 2005 were operating in previous years. In 2000, 181 of these banks were operating, and 152 were operating in 1995. Minority banks that failed or merged with other institutions between 1995 and 2005 are not included in the analysis for those years. In addition, we did not obtain data on the minority status of banks operating

in 1995 and 2000 and were unable to confirm that all 2005 minority banks were operating as minority banks in 1995 and 2000, although the change of ownership rate for minority banks is low.

We chose to use Call and Thrift Report data because it was designed to provide information on all federally insured banks' financial condition and has been collected and reported by FDIC in a standardized format. We have tested the reliability of FDIC's Call and Thrift Report databases during previous studies and found the data to be reliable.¹ As with any self-reported financial information, however, the data are subject to change for a variety of reasons. We corroborated our analysis of the Call and Thrift Report data with other studies, which also found that minority banks lag in profitability and have high operating expenses.²

To address the second objective, we interviewed officials at the federal banking agencies and the Department of the Treasury and reviewed regulators' documentation addressing their efforts to support minority banks and assess the effectiveness of these efforts. We also reviewed publicly available documentation maintained by the regulators, such as policy statements, lists of minority banks, Web sites, and public statements. We reviewed the regulators' minority banking support efforts across the different banking agencies and compared any program assessment efforts with our standards for program assessment and performance measures, and those established in the Government Performance and Results Act.³ We also interviewed 19 minority banks throughout the United States that we selected based on type of minority ownership and primary regulator, and relevant trade associations, to discuss the business environment in which they operate, regulators' minority banking efforts, any assessment efforts undertaken by the regulators, and their knowledge and experience with their regulators' minority banking efforts.

¹For example, GAO, *Industrial Loan Corporations: Recent Asset Growth and Commercial Interest Highlight Differences in Regulatory Authority*, [GAO-05-621](#) (Washington, D.C.: Sept. 2005), 87.

²Iqbal, Ramaswamy, Akhigbe, "The Output Efficiency of Minority-Owned Banks in the United States," 113; Hasan and Hunter, "Management Efficiency in Minority- and Women-owned banks"; Lawrence, "The Viability of Minority-Owned Banks."

³[GAO-05-739SP](#), [GAO-05-927](#), and [GAO/GGD-10.1.20](#).

To obtain the views of minority banks on the federal regulators' minority banking support efforts and related regulatory issues, we surveyed banks that were designated as minority institutions. We created a list of the population of minority banks by asking FDIC, Office of the Comptroller of the Currency (OCC), Federal Reserve, and Office of Thrift Supervision (OTS) for the names of all such institutions. The objective was to survey all minority banks that were officially recognized by regulators as such. Of the 204 institutions in our original population, 14 represented women-owned institutions. We identified the total minority bank population by reviewing and compiling one list of these banks from FDIC and the Federal Reserve's lists as of September 30, 2005; OCC's list from December 31, 2005; the most recent list from the Department of the Treasury (December 2004); and OTS's list as of January 2006.

All institutions we originally identified as minority banks were asked to complete a Web-based questionnaire in March of 2006. We determined that of the original 204 minority banks we identified, 9 were actually ineligible, either because the ownership was no longer minority or had insignificant minority interest, and some had merged with other banks. Our final survey population therefore consisted of 195 institutions. When the survey closed in late April, 149 of the 195 banks ultimately determined to be eligible minority banks had provided usable responses, for a response rate of 76 percent.

While developing our Web-based questionnaire, we asked all four banking regulators and minority banking associations to review a draft of the instrument and to offer comments. We also conducted four pretests of the draft questionnaire, each one using the software environment that actual respondents would experience. During the pretest, we observed respondents filling out the questionnaire and asked follow-up questions to clarify the respondents' understanding of the questions. On the basis of these results, we made modifications as appropriate before finalizing the questionnaire. The questionnaire also underwent a peer review by an independent survey specialist in our organization. The survey, which was implemented as an automated questionnaire on a secure Web site, was accessible only to specifically contacted bank officials and could be completed using a typical Web browser. However, the questionnaire, which contained 51 questions, was also reproduced as an electronic word-processing document that could be administered via e-mail, mail, or fax, for those respondents who preferred those modes or who could not access the Internet.

We began the survey in late February of 2006 by precontacting banks by telephone to verify their status and to obtain the names, titles, and e-mail addresses of the president or chief executive officer of the institution, who were designated as respondents, or were responsible for delegating the survey to another official. Prenotification e-mails were sent in early March to verify that the e-mails were valid. The survey was opened and respondents were given user names and passwords to their institution's questionnaires on March 14.

In late March and early April 2006, we sent two reminder e-mails to banks that had not yet responded, and began to call nonrespondents after that. We also made appeals encouraging responses through the National Bankers Association's (NBA) e-mailings and events. We also made a paper copy of the questionnaire that respondents could receive and return via mail or fax. In a final set of telephone follow-ups, we gave reluctant respondents the opportunity to answer a reduced set of key questions to encourage participation. A final reminder e-mail was sent in late April, and the survey was closed on April 28.

Not all surveyed members of the population returned questionnaires or answered every question. Two institutions explicitly refused to participate, and we were not able to obtain answers from the other 44 nonrespondents by the close of this review. This resulted in a response rate of 76 percent, calculated as the number of usable questionnaires returned divided by the final eligible population. The response rate to any one particular question varied, however, as some survey participants declined to provide answers to individual questions, and those 4 institutions agreeing to respond only to the final telephone follow-up attempt were asked only a limited number of key questions.

Results from this type of survey are subject to several types of errors: failure to include all eligible members in the listing of the population, measurement errors when administering the questions, nonresponse error from failing to collect information on some or all questions from part of the surveyed population, and data-processing error.

To limit the error from failing to list members of the population, we compared the regulators' lists of minority banks and discussed any discrepancies with each regulator. In accordance with our request, we included any bank considered by at least one regulator to be eligible to participate in its efforts. In some cases we surveyed minority banks that were not considered by their primary regulator to be minority institutions but were considered to have minority status or be eligible for participation

in another regulator's efforts. We compared the survey results for questions reported on in the text of the report with and without such banks to ascertain whether or not the results would have been significantly different without including such banks. We found no significant differences in the results when the banks not considered minority banks by their regulator were included from when such banks were excluded. Generally, removing the responses from such banks would have changed the results of key questions by 1 or 2 percentage points. In a few cases, the inclusion of banks not viewed by their regulators as minority institutions changed the survey results by 4 or 5 percentage points in a manner more favorable to the regulator. However, the inclusion of such banks did not have a material effect on the overall results.

To limit measurement error, we obtained comments from experts and tested the questionnaire with bank officials and attempted to improve the questionnaire before finalizing it.

Although we chose to send our survey to all members of the population and not a sample, and thus the survey results are not technically subject to sampling error, because only 76 percent of the population provided usable responses, bias from nonresponse may result. If the responses of those who did not respond would have differed from the responses of those who did on some survey questions, the estimates made solely from those who did respond would be biased from excluding parts of the population with different characteristics or views. To limit this kind of error, we made multiple attempts to gain the participation of as many banks as possible. To assess the likelihood of significant bias, we compared characteristics such as asset size, regulator, and minority type—which may be related to the substance of answers to our survey questions—of nonrespondents to respondents. We did not detect a significant difference between those who chose to respond and those who did not based on these characteristics. To further assess the potential extent of nonresponse bias, we compared the response rates of the subgroups of those characteristics in our population, and determined that response rate did not differ markedly between categories of these subgroups, suggesting that banks of certain types were not materially more likely to participate or not participate than others. Finally, we analyzed the patterns in response between those who answered in the earlier part of the fieldwork period and those who responded only after repeated follow-up attempts. It is possible that the latter group resembles nonrespondents. No significant difference in the answers between the groups was detected, which may suggest that actual nonrespondents would not have answered in a substantially different way from those who did. While the possibility exists that the true results for the

entire population might be different from those we estimated in our report, we feel that on the basis of our analysis, nonresponse bias is unlikely.

To limit data-processing error, a second data analyst independently verified analysis programming. In addition, the coding process of converting narrative answers into quantitative, categorical data was independently assessed to be reliable, and diagnostic checks were performed on the survey data to the extent possible. For example, one of our checks identified inconsistencies for four questionnaires that indicated a primary supervisor which did not match regulator records, allowing us to make a correction to responses. We did not otherwise verify the substance of respondents' answers to our questions.

We conducted our work in Washington, D.C., and New York from December 2005 to September 2006 in accordance with generally accepted government auditing standards.

Appendix II: Minority Bank Eligibility Criteria

Banking regulators use different criteria for determining the types of institutions that can participate in their respective minority bank efforts, and all regulators maintain lists of minority banks based on these different criteria (fig. 11). Some regulators base their definition on Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), and others base their definition on the criteria in a 1969 executive order that established the Department of the Treasury's Minority Bank Deposit Program (MBDP). The MBDP is a voluntary program that encourages federal agencies, state and local governments, and the private sector to use MBDP participants as depositaries and financial agents. Participants are certified by Treasury's Bureau of Financial Management Service and included on an annual program roster.

- FDIC is subject to the "minority depository institution" definition set forth in Section 308 of FIRREA but has interpreted ownership by "socially and economically disadvantaged individuals" as requiring ownership by minorities as defined in Section 308. FDIC does not include women-owned banks in its minority bank definition. For stock institutions, FDIC determines minority ownership of stock institutions based on the proportion of the outstanding voting stock owned by minorities. In addition, FDIC has made its program available to public or privately held stock institutions and mutuals whose boards of directors and communities served are predominantly minority, without regard to the minority status of the institution's ownership or its account holders.

Appendix II: Minority Bank Eligibility Criteria

Figure 11: Regulators' Eligibility Criteria for Minority Bank Efforts

	FIRREA	FDIC	OTS	OCC/ Federal Reserve public list/Treasury
Ownership More than 51% owned by minorities	Private or publicly traded institutions ^a	Stock institutions	Stock institutions	Banks and stock S&Ls ^b
		or	or	or
Board of directors Majority of Board are predominantly minority, and	Mutuals		Mutual or publicly traded institutions	Mutual S&Ls
Community serviced Majority of community served are predominantly minority, and	Mutuals		Mutual or publicly traded institutions	
Account holders Majority of account holders are predominantly minority	Mutuals		Mutual or publicly traded institutions	
			or	or
Women CEO officer is a woman, and			Mutuals	
Significant percentage of senior management are women, and				Banks and stock S&Ls, Mutual S&Ls
Majority of Board of Directors are women, and			Mutuals	Banks and stock S&Ls, Mutual S&Ls
More than 50% of outstanding stock owned by women				Banks and stock S&Ls

- Not required
- Not eligible
- Select institutions
- All institutions

Sources: Treasury, FDIC, OTS, OCC, and Federal Reserve.

^a“S&Ls” refers to savings and loans, a term synonymous with “thrift institutions,” which are a type of financial institution regulated by OTS. In this report, we include S&Ls or thrifts under the term “banks.” Also under this definition, minorities must own or have voting control over more than 50 percent of the outstanding stock.

^bUnder FIRREA’s definition, a privately or publicly owned institution is considered minority-owned if more than 51 percent is owned by one or more “socially disadvantaged individuals.”

- OTS is also subject to the “minority depository institution” definition set forth in Section 308 of FIRREA. Like FDIC, OTS has interpreted ownership by “socially and economically disadvantaged individuals” as requiring ownership by minorities as defined in Section 308. OTS also determines minority ownership of stock institutions based on the proportion of the outstanding voting stock owned by minorities. OTS has also expanded the availability of its program to some constituencies that are not eligible for FDIC’s program. For example, mutual institutions that have women CEOs

and have a majority of women on their boards of directors are eligible to participate in OTS's minority bank efforts. In addition, public stock institutions and mutuals (but not private stock institutions) whose boards of directors, communities served, and account holders are predominantly minority, may participate in OTS's efforts regardless of the minority status of the institution's ownership.

- Treasury's criteria—on which OCC and the Federal Reserve base their criteria—differ from those of Section 308 of FIRREA, FDIC, and OTS in several ways. In the first instance, the MBDP program is available to both minority- and women-owned banks, stock savings and loans, and mutual savings and loans. In order to be included on Treasury's MBDP roster as a minority-owned bank or stock savings and loans, more than 50 percent of an institution's outstanding stock must be either owned or controlled for voting purposes by individuals of minority groups. A mutual savings and loan may qualify as minority-owned if a majority of the institution's board of directors are members of minority groups. To qualify as a women-owned bank or stock savings and loans, more than 50 percent of the institution's outstanding stock must be owned by women and a significant percentage of senior management positions must be held by women. A women-owned mutual savings and loan is eligible for the MBDP if a majority of its board of directors are women and a significant percentage of senior management positions are held by women.
- The OCC's definition is consistent with that established by Treasury's MBDP criteria. OCC is not covered by Section 308 of FIRREA.
- The Federal Reserve also bases its definition on Treasury's MBDP criteria. However, the Division of Supervision of the Federal Reserve also compiles an internal list of minority banks that is based on Section 308 FIRREA criteria.

We identified several discrepancies in the regulators' lists of minority banks. These banks were all listed as minority banks by one regulator but not by another. When we spoke to officials from each of the agencies, they told us that these discrepancies were due to differences in criteria for minority banks. For example, five of these discrepancies were the result of FDIC's exclusion of women-owned banks—women-owned banks cannot participate in FDIC's programs, but they can participate in the MBDP program. Another discrepancy resulted from a bank's primary regulator excluding a certain ethnicity (not named in FIRREA), while another regulator included it.

Appendix III: Selected Survey Results

This appendix provides the number of minority banks that responded to each survey question discussed in the report body by response category.

Table 5: How good or poor are these efforts for supporting minority-owned financial institutions?

	FDIC	Federal Reserve	OCC	OTS	Total
Very good/good	35	5	8	4	52
Fair	17	8	8	5	38
Poor/very poor	6	2	6	5	19
Don't know	19	2	11	4	36
Total	77	17	33	18	145

Source: GAO.

Table 6: Has your primary regulator made your institution aware of any of the technical assistance it offers in the past 3 years?

	FDIC	Federal Reserve	OCC	OTS	Total
Yes	50	6	9	8	73
No	20	10	15	8	53
Don't know/No answer	10	1	8	1	20
Total	80	17	32	17	146

Source: GAO.

Table 7: Has your institution used any technical assistance offered by your primary regulator in the past 3 years?

	FDIC	Federal Reserve	OCC	OTS	Total
Yes	23	4	9	5	41
No	48	10	23	11	92
Don't know	7	2	0	2	11
Total	78	16	32	18	144

Source: GAO.

Table 8: (If used) How useful or not useful do you think your primary regulator’s technical assistance is?

	Total
Extremely/very useful	33
Moderately useful	5
Slightly/not at all useful	3
Total	41

Source: GAO.

Table 9: Are you aware or unaware whether FDIC or any other regulator has held roundtables and/or conferences for minority-owned financial institutions in the past 3 years, and if so, have you attended any? (Below are responses concerning FDIC roundtables and/or conferences.)

	FDIC	Federal Reserve	OCC	OTS	Total
Unaware	14	3	15	1	33
Aware, and attended	40	7	9	9	65
Aware, NOT attended	24	8	7	7	46
No answer	1	0	0	1	2
Total	79	18	31	18	146

Source: GAO.

Table 10: (If attended) How useful or not useful do you think these minority institution roundtables and conferences are? (Below are responses for FDIC roundtables and/or conferences.)

	FDIC	Federal Reserve	OCC	OTS	Total
Extremely/very useful	20	4	6	3	33
Moderately useful	10	3	3	4	20
Slightly/not at all useful	9	0	0	2	11
Don't know	1	0	0	0	1
Total	40	7	9	9	65

Source: GAO.

Table 11: Has your institution participated in training or education programs offered by your primary regulator or other regulators in the past 3 years? (Below are responses for the bank's primary regulator's training and educational programs.)

	Total
Yes	83
No	53
Don't know	6
Total	142

Source: GAO.

Table 12: (If attended) How useful or not useful do you think these training and educational programs are? (Below are responses for the bank's primary regulator's training and educational programs.)

	FDIC	Federal Reserve	OCC	OTS	Total
Extremely/very useful	37	9	14	1	61
Moderately useful	6	3	2	1	12
Slightly useful	2	0	0	3	5
Don't know	0	0	2	0	2
Total	45	12	18	5	80

Source: GAO.

Table 13: How good or poor of a job do you think your regulator does in administering examinations?

	Total
Very good/good	118
Fair	18
Poor/very poor	5
Don't know	4
Total	145

Source: GAO.

Table 14: Overall, how good or poor is your relationship with your primary regulator?

	Total
Very good/good	128
Fair	11
Poor/very poor	5
Don't know	1
Total	145

Source: GAO.

Table 15: To what extent do you feel this provision of CRA has encouraged other insured depository institutions to make investments in your institution or undertake loan participations or other ventures with your institution?

	Total
Very great/great extent	21
Moderate extent	28
Some/little or no extent	60
Don't know	5
Total	114

Source: GAO.

Table 16: How would you rate your institution's current financial outlook compared with the past 3 to 5 years?

	Total
Much/slightly better	94
About the same	30
Slightly/much worse	16
Don't know	4
Total	144

Source: GAO.

Table 17: What suggestions, if any, do you have for improving existing federal banking regulators’ efforts to support minority-owned financial institutions, or suggestions for creating new programs or policies in that area?

	Total
More understanding of/sensitivity to minority banks’ uniqueness	24
Improved communication on issues/programs relevant to minority banks, provide financial data on minority banks	16
More guidance, specific technical assistance, training on minority banks issues	12
Other	8
Reduce regulatory burden, examine well-performing minority banks less frequently	7
Facilitate, encourage Community Reinvestment Act (CRA) investments and partnerships between institutions and minority banks	5
Continued training/providing updated general information	4
Uniformity/centralization of minority bank programs across regulators	4
More/improved deposit programs	4
Increase accountability, oversight of regulators	3
Not applicable	26
Total number of comments	113

Source: GAO.

Appendix IV: Comments from the Federal Deposit Insurance Corporation



Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Division of Supervision and Consumer Protection

September 11, 2006

Mr. George A. Scott, Acting Director
Financial Markets and Community Investments
U.S. Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Scott:

Thank you for the opportunity to comment on the draft report entitled *Minority Banks – Regulators Need to Better Assess Effectiveness of Support Efforts (GAO-07-6)*. We are appreciative of the acknowledgement that, of the four Federal banking agencies, the Federal Deposit Insurance Corporation (“FDIC”) has developed the most extensive efforts to support minority banks. We will continue to look for new and innovative ways to preserve and promote the minority bank segment of the banking industry.

The FDIC generally agrees with the report content. We are aware of the profitability challenges faced by many minority banks. Historically, minority banks as a group have had lower profitability than their non-minority bank peer group. For example, minority institutions often have higher proportions of accounts with low deposit balances and lower fee income which contribute to lower income levels relative to their peers. We will continue to monitor the profitability of minority banks and continue our efforts to provide technical assistance to both the minority bank segment of the industry and the individual minority bank institutions.

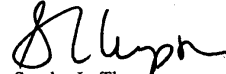
We agree with the specific recommendations in the report and will take the steps necessary to implement them. Although we regularly review the effectiveness of our minority bank support efforts, and routinely assess the need to make any necessary changes, we agree that conducting periodic surveys of FDIC-regulated minority banks to confirm that our efforts are effective is appropriate. Such a survey would complement our examination and visitation efforts, as well as our routine offers of technical assistance and outreach initiatives aimed specifically at the minority bank community. Implementation of this new survey will assist in measuring success under the second recommendation contained in the report, which is to establish outcome-oriented performance measures to assess the progress of FDIC efforts relative to achieving program goals. Specifically, we will take a more pro-active approach in following up with minority banks that utilize our “technical assistance” program to see if this assistance contributed to the desired result; we will undertake a review of the way in which we promote our “technical assistance” program to ascertain ways to achieve a higher minority bank usage rate; we will continue our efforts to educate our examiners on minority bank characteristics and issues; we will continue to be at the forefront of providing informative and effective outreach programs to the minority bank

**Appendix IV: Comments from the Federal
Deposit Insurance Corporation**

community; and we will continue to look for new ways to partner with and promote the financial health of the minority institutions and the communities they serve.

Thank you again for the opportunity to respond to your findings.

Sincerely,



Sandra L. Thompson
Acting Director

Appendix V: Comments from the Office of Thrift Supervision



Office of Thrift Supervision
Department of the Treasury

1700 G Street, N.W., Washington, DC 20552 • (202) 906-6590

John M. Reich
Director

September 25, 2006

George A. Scott
Acting Director
Financial Markets and Community Investment
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Scott:

Thank you for the opportunity to review and comment on the Government Accountability Office's (GAO) report entitled *Minority Banks – Regulators Need To Better Assess Effectiveness of Support Efforts (GAO-07-6)*. The report reviews the efforts of the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve, and the Office of Thrift Supervision in supporting minority banks.

OTS has long recognized the important role minority owned institutions play in fostering economic vitality and access to capital, particularly in minority and low-income communities. The foundation of OTS's Minority Owned Institutions Program can be found in the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). Section 308 of FIRREA requires OTS to:

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

The GAO's report recommends that the banking agencies: (1) conduct periodic surveys of minority banks to determine how they view support efforts and related activities; and (2) develop outcome-oriented performance measures to assess the progress of efforts in relation to program goals. The report also suggests that the agencies focus on minority banks' overall view on support efforts, the usage and effectiveness of technical assistance services (particularly technical assistance provided to small minority banks and African-American banks), and the level of training provided to agency examiners regarding minority banks and their operating environments.

George A. Scott
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OTS agrees with these recommendations and has initiated steps to develop specific implementation strategies. These actions will enhance the long standing minority financial institution support program that OTS and its predecessor have provided since the 1970s.

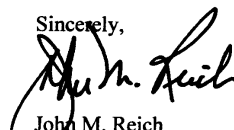
Through the minority owned institutions program, OTS provides one-on-one technical assistance to most of the minority owned savings associations it regulates. We have focused on technical assistance as a vehicle to achieve the broad goals contained in FIRREA. Technical assistance varies depending upon issues identified in examinations, while conducting outreach activities, or as requested by an institution.

Examples of the types of technical assistance that OTS provided to minority owned institutions in 2005 include: guidance on enhancing compliance management programs, including Bank Secrecy Act (BSA) compliance requirements; assistance with identifying and hiring key personnel, including board members; and assistance with credit risk analysis, including the evaluation of large loan exposures.

While we are pleased with our positive and proactive record of supporting minority owned institutions, we have taken steps to enhance our efforts in the future. For example, OTS is actively exploring initiatives to help meet our commitment to preserve existing minority owned institutions and encourage the formation of new ones. One such initiative, in response to requests from minority owned institutions, is the development of training on ways minority owned institutions can attract investment. OTS has also developed an outreach plan to participate in widely-attended banking conferences and meetings across the country, that includes the use of an OTS booth. We plan to utilize the booth to provide information about the thrift charter, including its benefits, our Minority Owned Institutions Program, and the types of assistance OTS provides. OTS has also dedicated additional staff resources to support this important program. Lastly, OTS is updating a strategic plan that will clearly identify steps we will take to implement the recommendations included in the GAO report along with other initiatives designed to support minority owned institutions.

We appreciate the opportunity to comment on the report. OTS is committed to dedicating the resources necessary to further enhance our efforts to support minority owned institutions.

Sincerely,



John M. Reich
Director

Appendix VI: Comments from the Comptroller of the Currency



Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

September 14, 2006

Mr. George A. Scott
Acting Director, Financial Markets and Community Investment
U. S. Government Accountability Office
Washington, DC 20548

Subject: Comments on Draft Report

Dear Mr. Scott:

We have reviewed your draft report titled “Minority Banks: Regulators Need To Better Assess Effectiveness Of Support Efforts.” The purpose of the report is to update earlier GAO work looking at the efforts of all of the federal banking regulators, not just those covered by Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). To fulfill the objective you used the FIRREA goals as evaluation criteria, *i.e.*, preserving the present number of minority banks; preserving their minority character in cases involving mergers or acquisitions of minority banks; providing technical assistance to prevent the insolvency of institutions that are not currently insolvent; promoting and encouraging the creation of new minority banks; and providing for training, technical assistance, and educational programs. You are reporting that the regulators have adopted differing approaches to supporting minority banks and that none have undertaken a deliberate effort to assess the effectiveness of their efforts.

Minority-owned institutions play a vital role in many American communities, and we appreciate the insights you offered in your report. Your recommendations will provide valuable assistance as we evaluate and try to improve our program. I can assure you that the OCC is committed to working with minority-owned national banks and to providing the technical assistance they need to be successful.

The OCC issued a policy statement on minority banks in March 2001. That policy statement, still in effect, defines “minority-owned bank” and calls for an annual update of the list of minority institutions; pledges technical assistance to applicants interested in entering the national banking system; allows for capital investments in minority-owned banks by other national banks; describes examination support, including coordination with the FDIC in resolving problem situations; and calls for information, education, and outreach for minority-owned banks.

In pursuit of this policy, the OCC participated in formal activities targeted to minority-owned institutions, including events sponsored by the FDIC and other organizations. Minority outreach

**Appendix VI: Comments from the Comptroller
of the Currency**

was pursued as a specialized activity, often within our broader community affairs framework, *i.e.*, community affairs officers in the districts and the Ombudsman. Then, in December 2004, we created a new senior advisor for external outreach and minority affairs to serve as a focal point for minority banking issues going forward.

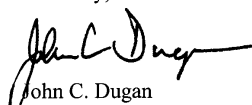
Over the last year, the OCC has pursued a number of initiatives consistent with the goals of FIRREA, including more activities on our own. In February 2006, for example, we reached out to the leaders of African-American national banks. As noted in your report, they met with OCC's executives to discuss the challenges their banks face. Following that discussion, the bankers made a well-attended presentation of their challenges to OCC employees. We are using the feedback received from this event to develop additional initiatives.

In March 2006, we took a very important step by making it easier for national banks to receive CRA consideration for Part 24 investments in minority-owned institutions. We recently established a Web Page for Minority Affairs that will feature information of interest and related to minority banks, including identification of investments that are eligible for CRA consideration. Other initiatives currently under consideration include providing technical assistance and information on emerging issues to minority-owned institutions and providing training for our examiners.

We agree, as you recommend, that an assessment of the effectiveness of our efforts is necessary and useful and have taken that into consideration in planning the new initiatives described above. In addition, we are planning three focus group sessions for minority banks in the coming year that are expected to provide targeted and specific feedback on the OCC's efforts to support minority-owned banks and an assessment of their needs. We will use this information to plan initiatives, whenever possible, to meet their needs.

Thank you for the opportunity to review and comment on the draft report. Technical comments were provided separately.

Sincerely,


John C. Dugan
Comptroller of the Currency

Appendix VII: Comments from the Board of Governors of the Federal Reserve System



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

SANDRA F. BRAUNSTEIN
DIRECTOR
DIVISION OF CONSUMER
AND COMMUNITY AFFAIRS

September 19, 2006

Mr. George A. Scott, Acting Director
Financial Market and Community Investments
General Government Division
United States Government Accountability Office
Washington, D.C. 20548

Dear Mr. Scott:

We appreciate the opportunity to comment on the GAO's August 2006 report entitled Minority Banks: Regulators Need to Better Assess Effectiveness of Support Efforts, a follow-up to its report in 1993 on the implementation of section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA"). Section 308 of FIRREA established goals for the Federal Deposit Insurance Corporation ("FDIC") and the Office of Thrift Supervision ("OTS"), in consultation with the Department of the Treasury, to provide support to, and preserve the character of, institutions in which minority individuals or organizations hold a majority of the ownership interests ("minority institutions"). Congress recognized in Section 308 that those agencies, unlike the Federal Reserve, have the ability to affect these institutions very directly in this regard through their liquidation and receivership activities. Consequently, it is not surprising that the draft report concluded that the FDIC and the OTS have the most comprehensive programs to support minority-owned institutions, and that the FDIC has taken the lead to coordinate interagency efforts in this regard. Nonetheless, despite not being subject to Section 308, the Federal Reserve has provided significant assistance and support to the minority institutions it supervises and has actively participated in regulatory, supervisory, and community development efforts that benefit minority institutions. We believe our informal program to support minority-owned institutions is reasonable and justified in light of the small number, diversity, and geographic dispersion of the minority-owned state member banks we supervise.

There are 17 minority-owned state member banks subject to the supervisory authority of the Federal Reserve System. These banks are quite diverse in terms of their minority ownership (e.g., African American, Native American, Asian, and Hispanic) and the markets they serve. Some are quite profitable and operate in higher income markets while others serve lower income communities. Some face challenges with regard to such matters as high overhead expenses, retention of qualified management, and strong competition from larger institutions in their

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markets. The 17 state member banks are geographically dispersed across seven of the System's twelve districts.

The Federal Reserve System historically has offered tailored technical assistance, director training, and other support to state member banks and bank holding companies that may benefit from such assistance. Such assistance is offered based on need equally to all state member banks and bank holding companies. The Federal Reserve System also has particularly focused its support effort on banks that operate in low- to moderate-income communities in light of the particular challenges such banks face irrespective of whether they are minority-owned institutions.

Currently, the Federal Reserve has a pilot program underway to focus on the special needs of minority institutions and other institutions that focus on serving communities with significant minority populations. The Federal Reserve is also developing guidance to better educate examination staff about the various types of minority institutions and minority communities, and hopes to gain interagency and industry support for this project. These efforts are expected to benefit a larger number of institutions that serve a broader scope of customers and minority communities than programs focused only on minority-owned institutions.

Because the 17 minority institutions are geographically dispersed, serve very different types of communities, and have different needs, we have taken what we believe to be the sensible approach of addressing these institutions' needs through individually tailored technical assistance as opposed to a single program that attempts to deal with the varied circumstances of all of these institutions. When appropriate, this assistance has included contacting minority institutions that have required a private or FDIC resolution since the enactment of FIRREA in 1989. For others that have needed capital or management support, our assistance has included contacting other minority institutions to ascertain interest in making an acquisition, as well as contacting other nonminority-owned institutions about possibly making investments and providing management assistance. Some of these efforts were successful and helped preserve the minority-owned status of institutions, while in other cases the institution contacted declined to pursue an acquisition, make an investment, or provide other assistance after conducting due diligence regarding the troubled minority institution.

Because the draft report does not fully recognize the many efforts made by the Federal Reserve to preserve, and serve, minority institutions, we believe it should be expanded to acknowledge these efforts. We also have some disagreement with the GAO's interpretations of the results of the survey it conducted to produce this draft report. We have relayed our concerns, and provided corrections to some factual inaccuracies, to the GAO staff separately. We trust these matters will be addressed in the final report.

We will take into consideration your recommendation that the agencies regularly review the effectiveness of their minority bank support efforts and related regulatory activities and, as appropriate, assess the need to make changes necessary to better serve such institutions. We will also consider the means for doing so that you suggest. We believe that outreach to minority institutions; exploring options to engage more of the minority institutions in technical assistance

**Appendix VII: Comments from the Board of
Governors of the Federal Reserve System**

Mr. George A. Scott
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and training; and providing appropriate training for examiners to assist in their analysis and supervision of these institutions have value when properly done. The Federal Reserve is, and has been, actively involved with the other agencies in addressing the needs of minority-owned institutions, as your recommendation suggests.

Sincerely,



c: Wesley M. Phillips, Assistant Director, GAO

Appendix VIII: GAO Contact and Staff Acknowledgments

GAO Contact

George A. Scott (202) 512-7215 or scottg@gao.gov

Acknowledgments

In addition to the contact named above, Wesley M. Phillips, Assistant Director; Allison Abrams; Anna Bonelli; Stefanie Bzdusek; Emily Chalmers; Catherine Hurley; Marc Molino; Carl Ramirez; and Omyra Ramsingh made significant contributions to this report.

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