MINORITY BANKS

Regulators’ Assessments of the Effectiveness of Their Support Efforts Have Been Limited

Statement of George A. Scott, Director
Financial Markets and Community Investment
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What GAO Found

GAO reported in 2006 that 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, according to FDIC data. 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 had adopted differing approaches to supporting minority banks, but no agency had regularly and comprehensively assessed the effectiveness of its efforts. FDIC—which supervises over half of all minority banks—had the most comprehensive support efforts and leads interagency efforts. OTS focused on providing technical assistance to minority banks. While not required to do so by FIRREA, OCC and the Federal Reserve had taken some steps to support minority banks. Although FDIC had recently sought to assess the effectiveness of its support efforts through various methods, none of the regulators comprehensively surveyed minority banks or had developed performance measures. Consequently, the regulators were 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 have emphasized 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 |
|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                  | Total           | FDIC            | Federal Reserve | OCC             | OTS             |
| Percentage       | Don’t know      | Poor/very poor  | Fair            | Very good/good  |                 |
| 50               |                 |                 |                 |                 |                 |
| 40               |                 |                 |                 |                 |                 |
| 30               |                 |                 |                 |                 |                 |
| 20               |                 |                 |                 |                 |                 |
| 10               |                 |                 |                 |                 |                 |
| 0                |                 |                 |                 |                 |                 |

Source: GAO.
Mr. Chairman and Members of the Subcommittee:

I am pleased to be here to discuss the findings of a report that we issued last year on the efforts of federal bank regulators to support minority banks.¹ As described in our report, minority banks are a small community within the banking industry, accounting for 2 percent of all financial institutions and total industry assets. 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 toward which federal regulators must work 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 work toward preserving the character of minority banks in cases involving mergers or acquisitions of these institutions (I will refer to such activities as minority bank support efforts in my testimony today).³ While the other bank regulators—the Board of Governors of the Federal Reserve System (Federal Reserve) and the Office of the Comptroller of the Currency (OCC)—are not subject to Section 308 of FIRREA, they also have engaged in efforts to support minority banks over the years.

You and other members of the House Financial Services Committee, including the Chairman, requested in 2005 that we review the efforts of all

¹GAO, Minority Banks: Regulators Need to Better Assess Effectiveness of Support Efforts, GAO-07-6 (Washington, D.C.: Oct. 4, 2006). The term “minority banks” refers to all depository institutions—including thrifts—that are considered minority- or women-owned by the Department of the Treasury and the federal banking regulators—the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision.


³While Treasury convened interagency panels on minority bank issues in the early 1990s, department officials said it no longer does so. According to Treasury officials, the FIRREA consulting requirement is open to some interpretation and the general view within the department was that ongoing consultations were not required. However, Treasury officials said that they do discuss minority bank issues with the regulators as the need arises.
of the regulators to support minority banks out of concerns about the effectiveness of those efforts. We had previously reported in 1993 that while FDIC and OTS had taken steps to comply with Section 308, minority banks had mixed views on the effectiveness of the agencies’ efforts. In particular, minority banks were concerned that the regulators did not provide adequate technical assistance, and, more generally, that agency safety and soundness examiners did not understand the unique challenges that their institutions faced. We recommended in the 1993 report that FDIC and OTS periodically survey minority banks to assess the effectiveness of their support efforts. Given the passage of time between 1993 and 2005, you requested that we follow up on minority bank issues and the efforts of all bank regulators to support such institutions.

In my testimony today, I will discuss the key findings of our 2006 report, which included steps to (1) review the profitability of minority banks over time; (2) identify the regulators’ minority bank support efforts and determine whether the regulators were evaluating the effectiveness of those efforts; and (3) obtain the views of minority banks on the support efforts and related regulatory issues. Additionally, in the last section of this testimony, I will provide a brief update on some of the steps the regulators have taken in response to recommendations in our 2006 report.

To address the first objective, we obtained and analyzed financial data for minority banks from FDIC for 1995, 2000, and 2005. 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 Treasury, FDIC, the 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 surveyed all institutions identified by the banking regulators as minority institutions. The Web-based survey, which was conducted from March through April 2006, asked about the banks’ awareness and use of the regulators’ minority bank support efforts and

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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. Finally, in preparation for this testimony, we contacted the regulators in order to obtain information on any efforts they may have undertaken in response to the recommendations in our 2006 report.

We conducted our work in Washington, D.C., and New York in accordance with generally accepted government auditing standards.

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. 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. 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, such as relatively higher reserves for potential loan losses and administrative expenses and 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, at the time of our review, no agency had assessed the effectiveness of its efforts through regular and comprehensive surveys of

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\(^6\)The FDIC definition for peer groups includes all institutions of a similar asset size, including minority and nonminority institutions.

\(^7\)Examples of assets include loans and securities.
minority banks or outcome-oriented performance measures. FDIC— which supervises more than half of all minority banks—had the most comprehensive program to support minority banks and led an interagency group that coordinates such efforts. Among other things, FDIC has designated officials in the agency’s headquarters and regional offices to be responsible for minority bank efforts, held periodic conferences for minority banks, and established formal policies for annual outreach to the banks it regulates to make them aware of available technical assistance. OTS also designated staff to be responsible for the agency’s efforts to support minority banks, developed outreach procedures, and focused its efforts on providing technical assistance. OCC and the Federal Reserve, while not required to do so by Section 308 of FIRREA, undertook some efforts to support minority banks, such as holding occasional conferences for Native American banks, and were planning additional efforts. FDIC proactively sought to assess the effectiveness of its support efforts; for example, it surveyed minority banks. However, these surveys did not address key activities, such as the provision of technical assistance, and the agency had not established outcome-oriented performance measures for its support efforts. Furthermore, none of the other regulators comprehensively surveyed minority banks on the effectiveness of their support efforts or established outcome-oriented performance measures. Consequently, the regulators were not well positioned to assess the results of their support efforts or identify areas for improvement.

Our survey of minority banks identified potential limitations in the regulators’ support efforts that likely would be of significance to agency managers and warrant follow-up analysis. 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 “do not know.” FDIC-regulated banks were more positive about their agency’s efforts than banks that other agencies regulated. 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 said they had used such agency services within the last 3 years. Therefore, the banks may have been missing opportunities to address problems that limited their operations or

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8Outcome-oriented performance measures assess the results of a program against its intended purposes.
financial performance. As we found in our 1993 report, some minority bank officials also said that examiners did not always understand the challenges that the banks may face in providing services in their communities or operating environments. 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.

To allow the regulators to better understand the effectiveness of their support efforts, our October 2006 report recommended that the regulators review such efforts 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; or (2) establishing outcome-oriented performance measures to evaluate the extent to which their efforts are achieving their objectives. Subsequent to the report’s issuance, the regulators have reported taking steps to better assess or enhance their minority bank support efforts. For example, all of the regulators have developed surveys or are in the process of consulting with minority banks to obtain feedback on their support efforts. I also note that some regulators plan to provide additional training to their examiners on minority bank issues. These initiatives are positive developments, but it is too soon to evaluate their effectiveness. We encourage agency officials to ensure that they collect and analyze relevant data and take steps to enhance their minority bank support efforts as may be warranted.

Many minority banks are located in urban areas and seek to serve distressed communities and populations that financial institutions traditionally have underserved. 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 (see table 1).
Table 1: Number and Percentage of Minority Banks, by Type, 2005

<table>
<thead>
<tr>
<th>Type of minority bank</th>
<th>Number of banks</th>
<th>Percentage of all minority banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asian-American</td>
<td>73</td>
<td>37</td>
</tr>
<tr>
<td>African-American</td>
<td>46</td>
<td>24</td>
</tr>
<tr>
<td>Hispanic-American</td>
<td>38</td>
<td>19</td>
</tr>
<tr>
<td>Native American</td>
<td>20</td>
<td>10</td>
</tr>
<tr>
<td>Women-owned</td>
<td>13</td>
<td>7</td>
</tr>
<tr>
<td>Other</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>195</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Asset size</th>
<th>Percentage of minority banks</th>
<th>Percentage of total banking industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; $100 million</td>
<td>42</td>
<td>44</td>
</tr>
<tr>
<td>$100 million to $300 million</td>
<td>32</td>
<td>33</td>
</tr>
<tr>
<td>$300 million to $500 million</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>$500 million to $1 billion</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>$1 billion to $10 billion</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>&gt; $10 billion</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: GAO analysis of FDIC data.

Each federally insured depository institution, including each minority bank, has a primary federal regulator. As shown in table 3, FDIC serves as the primary federal regulator for more than half of minority banks—109 of
the 195 banks, or 56 percent—and the Federal Reserve regulates the fewest.

Table 3: Number of Minority Banks, by Regulator, 2005

<table>
<thead>
<tr>
<th>Regulator</th>
<th>Number of minority banks</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDIC</td>
<td>109</td>
<td>56</td>
</tr>
<tr>
<td>OCC</td>
<td>43</td>
<td>22</td>
</tr>
<tr>
<td>OTS</td>
<td>22</td>
<td>11</td>
</tr>
<tr>
<td>Federal Reserve</td>
<td>21</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>195</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

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. 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. However, in some cases minority banks not considered by their primary regulator to be minority institutions were considered to be eligible for participation in another regulator’s efforts. We identified 10 FDIC-regulated banks, 4 Federal Reserve-regulated banks, 3 OCC-regulated banks, and 1 OTS-regulated bank fitting this description.

The federal regulators primarily focus on ensuring the safety and soundness of banks and do so through on-site examinations and other means. Regulators may also close banks that are deemed insolvent and posing a risk to the Deposit Insurance Fund.\(^9\) FDIC is responsible for ensuring that the deposits in failed banks are protected up to established deposit insurance limits.

While the regulators’ primary focus is bank safety and soundness, laws and regulations can identify additional goals and objectives. Recognizing the importance of minority banks, Section 308 of FIRREA outlined five broad goals toward which FDIC and OTS, in consultation with Treasury, are to work 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 insolvency of institutions that are not currently insolvent;

\(^9\)FDIC administers the fund, which provides deposit insurance for banks and thrifts.
promoting and encouraging the creation of new minority banks; and

providing for training, technical assistance, and education programs.

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

As shown in figure 1, our 2006 report found that, according to FDIC data, 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 those of their peers. 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. 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. By historical banking industry standards, an ROA of 1 percent or more generally has been considered to indicate an adequate level of profitability. We found that profitability of the larger minority, 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.

A 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.
In contrast, 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 generally were close to those of their peers, or ROAs of about 1 percent, and minority banks with assets of less than $100 million showing greater differences with their peers.
The profitability of African-American banks generally has been below that of their peers in all size categories (see fig. 2). For example, African-American banks with less than $100 million in assets—which constitute 61 percent of all African-American banks—had an average ROA of 0.16 percent, while their peers averaged 1.0 percent. Our analysis of FDIC data for 2000 and 1995 also found that African-American banks of all sizes had lower ROAs than their peers.

Our analysis of 2005 FDIC data also suggests some possible reasons for the differences in profitability between some minority banks and their peers. For example, our analysis of 2005 FDIC data showed that African-

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11In 2005, African-American banks did not occupy all asset size categories. The largest African-American banks had less than $1 billion in assets; thus, they did not populate in the two largest size categories: $1 billion to $10 billion and greater than $10 billion.

12While 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.
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 (see fig. 3). Although having higher loan loss reserves may be necessary for the safe and sound operation of any particular bank, they lower bank profits because loan loss reserves are counted as expenses.

![Figure 3: Average Loan Loss Reserves as a Percentage of Assets for African-American and Peer Banks, 2005](image)

We also found some evidence that higher operating expenses might affect the profitability of some minority banks. Operating expenses—expenditures for items such as administrative expenses and salaries—typically are compared to an institution’s total earning assets, such as loans and investments, to indicate the proportion of earning assets that banks spend on operating expenses. As figure 4 indicates, many minority banks with less than $100 million in assets had higher operating expenses.

The term “loan loss reserves” refers to the allowance each bank must maintain to absorb estimated credit losses associated with its loan and lease portfolio.
than their peers in 2005. Academic studies we reviewed generally reached similar conclusions.

Figure 4: Average Operating Expenses Relative to Earning Assets of Banks with Assets Less Than $100 million, 2005

Officials from several minority banks we contacted also described aspects of their operating environment, business practices, and 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, as part of their mission these banks spend more time and resources on their customers per transaction than other banks. 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.

Minority bank officials also cited other factors that may have limited their profitability. In particular, in response to Community Reinvestment Act (CRA) incentives, the officials said that larger banks and other financial
institutions were increasing competition for minority banks’ traditional customer base. The officials said that larger banks could offer loans and other financial services at more competitive prices because they could raise funds at lower rates and take advantage of operational efficiencies. In addition, officials from some African-American and Hispanic banks cited attracting and retaining quality staff as a challenge to their profitability.

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 the customers’ primary language provided a competitive advantage.

Our report found that FDIC—which supervises 109 of 195 minority banks—had developed the most extensive efforts to support minority banks among the banking regulators (see fig. 5). FDIC had also 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. OTS had developed a variety of support programs, including developing a minority bank policy statement and staffing support structure. OCC had also taken steps to support minority banks, such as developing a policy statement. OCC and the Federal Reserve had also hosted events for some minority banks.
The following highlights some key support activities discussed in our October 2006 report.

**Policy Statements.** FDIC, OTS, and OCC all have policy statements that outline the agencies’ efforts for minority banks. They 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, 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.
While OCC and the Federal Reserve did not have similar staffing
structures, officials from these agencies had contacted minority banks
among their responsibilities.

Minority Bank Events and Training. FDIC has taken the lead role in
sponsoring, hosting, and coordinating events in support of minority banks.
For example, in August 2006 FDIC sponsored a national conference for
minority banks in which representatives from OTS, OCC, and the Federal
Reserve participated. FDIC also has sponsored the Minority Bankers
Roundtable (MBR) series, which agency 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. To varying degrees,
OTS, OCC, and the Federal Reserve also have held events to support
minority banks, such as Native American Institutions.

Technical Assistance. 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 from 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. OCC and the Federal
Reserve provide technical assistance to all of their banks, but had not
established outreach procedures for all their minority banks outside of the
customary examination and supervision processes. However, OCC
officials told us that they were in the process of developing an outreach
plan for all minority banks regulated by the agency. 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.

Policies to Preserve the Minority Character of Troubled Banks.
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 asked to bid on the assets of troubled minority banks that are expected to fail. However, FDIC is required to accept the bids on failing banks that pose the lowest expected cost to the Deposit Insurance Fund.\textsuperscript{15} As a result, all bidders, including minority bidders, are subject to competition. OTS and OCC have developed written policies that describe how the agencies will work with FDIC to identify qualified minority banks or investors to acquire minority banks that are failing. While the Federal Reserve does not have a similar written policy, agency officials say that they also work with FDIC to identify qualified minority banks or investors. All four agencies also said that they try to assist troubled minority banks improve their financial condition before it deteriorates to the point that a resolution through FDIC becomes necessary. For example, agencies may provide technical assistance in such situations or try to identify other minority banks willing to acquire or merge with the troubled institutions.

At the Time of our Report, Regulators Did Not Assess Their Support Efforts through Surveys or Performance Measures

While FDIC was proactive in assessing its support efforts for minority banks, none of the regulators 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 to manage programs successfully and improve program results. To this end, in 1993 Congress enacted the Government Performance and Results Act, which instituted a governmentwide requirement that agencies report on their results in achieving their agency and program goals.

As part of its assessment methods, FDIC conducted roundtables and surveyed minority banks on aspects of its minority bank efforts. For example, in 2005, FDIC requested feedback on its 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

\textsuperscript{15}Section 13(c) of the Federal Deposit Insurance Act (codified at 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 would incur in doing so would represent the least costly alternative.
partnership program with universities, and developing a minority bank museum exhibition.\textsuperscript{16} 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.

While FDIC had taken steps to assess the effectiveness of its minority bank support efforts, we identified some limitations in its approach. For example, in FDIC’s 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. None of the other regulators had surveyed minority banks recently on support efforts or developed performance measures.

By not taking such steps, we concluded that the regulators were not well positioned to assess their support efforts or identify areas for improvement. Further, the regulators could not 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 officials we surveyed 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. Some 36 percent of survey respondents described their regulators’ efforts as very good or good, 26 percent described them as fair, and 13 percent described the efforts as poor or very poor (see fig. 6). A relatively large percentage—25 percent—responded “do not know” to this question.

\textsuperscript{16}The museum exhibition would have traced the history of minority banks in the United States. However, after conducting additional research on this proposal, FDIC decided not to pursue the project, in part because of limited interest from some minority banks.
Banks’ responses varied by regulator, with 45 percent of banks regulated by FDIC giving very good or good responses, compared with about 25 percent of banks regulated by other agencies. 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 “do not 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.

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 (see fig. 7). 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 that the information 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 7: Usefulness of FDIC’s Roundtables and Conferences, by Regulator](image)

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 (see fig. 8). Minority banks regulated by OCC and the Federal Reserve reported similarly low usage of technical assistance services. However, of the few banks that used technical assistance—41—the majority rated the assistance provided as extremely or very useful.17 Further, although small minority banks and African-American banks of all

17The survey did find that minority banks that FDIC and OTS regulated were more aware of the agencies’ technical assistance outreach efforts than institutions that OCC and the Federal Reserve regulated. This finding is consistent with the fact that FDIC and OTS have formalized technical assistance outreach efforts, while the other regulators do not.
sizes have consistently faced financial challenges and might benefit from certain types of assistance, the banks also reported low rates of usage of the agencies’ technical assistance. While our survey did not address the reasons that relatively few minority banks appear to use the 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.

**Figure 8: Minority Banks’ Use of Technical Assistance, by Regulator**

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

More than 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 respondents mentioned this issue when asked for suggestions about how regulators could improve their efforts to support minority banks, and several minority banks that we interviewed 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 relative to the Bank Secrecy Act’s requirements for cash transactions. 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.

Many survey respondents also said that a CRA provision that was designed to assist their institutions was not effectively achieving this goal. The provision allows bank regulators conducting CRA examinations to give consideration to banks that assist minority banks through capital investment, loan participation, and other ventures that help meet the credit needs of local communities. Despite this provision, only 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 (see fig. 9). Some minority bankers attributed their view that the CRA provision has not been effective, in part, to a lack of clarity in interagency guidance on the act’s implementation. They said that the interagency guidance should be clarified to assure banks that they will receive CRA consideration in making investments in minority banks.

Figure 9: Minority Banks’ Evaluation of the Extent to Which CRA Has Encouraged Partnerships with Other Institutions

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<th>Percentage</th>
<th>Very great/great extent</th>
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Source: GAO.

Regulators Recently Have Taken Steps to Assess and Enhance Their Minority Bank Support Efforts, but It Is Too Soon to Assess Their Effectiveness

Our 2006 report recommended that the bank regulators regularly review the effectiveness of their minority bank support efforts and related regulatory activities and, as appropriate, make changes necessary to better serve such institutions. In conducting such reviews, we recommended that the regulators consider conducting periodic surveys of minority banks or developing outcome-oriented performance measures for their support efforts. In conducting such reviews, we also suggested that the regulators focus on the overall views of minority banks about support efforts, the usage and effectiveness of technical assistance (particularly assistance provided to small minority and African-American banks), and the level of training provided to agency examiners on minority banks and their operating environments.

Over the past year, bank regulatory officials we contacted identified several steps that they have initiated to assess the effectiveness of their minority bank support efforts or to enhance such support efforts. They include the following actions:
A Federal Reserve official told us that the agency has established a working group that is developing a pilot training program for minority banks and new banks. The official said that three training modules have been drafted for different phases of a bank’s life, including starting a bank, operating a bank during its first 5 years of existence, and bank expansion. The official said that the program will be piloted throughout the U.S. beginning in early November 2007. Throughout the course of developing, drafting, and piloting the program, Federal Reserve officials said they have, and will continue to, consult with minority bankers to obtain feedback on the effort.

An OCC official said that the agency recently sent a survey to minority banks on its education, outreach, and technical assistance efforts that should be completed by the end of October. OCC also plans to follow up this survey with a series of focus groups. In addition, the official said OCC just completed an internal survey of certain officials involved in supervising minority institutions, and plans to review the results of the two surveys and focus groups to improve its minority bank support efforts.

FDIC officials told us that the agency has developed a survey to obtain feedback on the agency’s minority bank support efforts. They estimate that the survey will be sent out to all minority institutions (not just those minority banks FDIC supervises) in mid-December 2007.

An OTS official told us that the agency will send out a survey to the minority banks the agency supervises on its efforts in the next couple weeks and that it has also conducted a series of roundtables with minority banks in the past year.

The federal banking agencies have also taken some steps to address other issues raised in our report. For example, Federal Reserve and FDIC officials told us that the agencies will provide additional training on minority bank issues to their examiners. In addition, in July 2007 the federal banking agencies published a CRA Interagency Notice that requested comments on nine new “Questions and Answers” about community reinvestment. One question covers how majority banks may engage in and receive positive CRA consideration for activities conducted with minority institutions. An OCC official said that the comments on the proposed “Q and As” are under review.

While the regulators’ recent efforts to assess and enhance their minority bank support efforts and other activities are encouraging, it is too soon to assess their effectiveness. For example, the Federal Reserve’s pilot training program for minority and new banks is not scheduled to begin until later this year. Further, the other regulators’ efforts to survey minority banks on support efforts generally also are at an early stage. We encourage agency officials to ensure that they collect and analyze relevant data and take steps to enhance their minority bank support efforts as warranted.

Mr. Chairman, this concludes my prepared statement. I would be happy to address any questions that you or subcommittee members may have.

For further information about this testimony, please contact George A. Scott on (202) 512-7215 or at scottg@gao.gov.

Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals making key contributions include Wesley M. Phillips, Assistant Director; Allison Abrams; Kevin Averyt; and Barbara Roesmann.
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