MINORITY BANKS

Regulators Need to Better Assess Effectiveness of Support Efforts

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.

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.