Remarks
By
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Minority banks have been part of the American scene for almost a century, in fact, since Maggie L. Walker, an African-American woman, founded St. Luke's Penny Savings Bank in Richmond, Virginia, in 1903. Until she came along, no woman in America's history had ever founded a bank - let alone become its president. But through determination and perseverance, Maggie Walker built an institution in Richmond that was so successful that when other financial institutions were going bankrupt during the banking crisis of the 1930s, Walker's paid dividends to shareholders.

Today, nearly 150 minority-owned banks and thrifts operate over 800 offices throughout 29 states, the District of Columbia and U.S. territories. Their combined assets exceed $46 billion.

The growth of minority banks is a success story. I'd like to keep it that way.

I'm here today to talk about the challenges facing minority-owned banks and to pose some questions about how we can address those challenges, particularly those faced by many of the smaller minority-owned banks.

No one knows better than you do what challenges minority bankers face, especially those affiliated with smaller institutions. And minority-owned banks tend to be on the small side, with an average asset size less than half of the industry average -- $317 million compared to $709 million in average total assets.

Minority banks also are much more urban than non-minority banks with 92% compared to 49% headquartered in metropolitan areas. The location in urban areas is a likely contributor to high operating costs, which often are not offset by sufficient asset yields and net interest margins.

While the performance of larger minority-owned banks - institutions with assets greater than $1 billion - closely mirrors that of their non-minority counterparts, among smaller institutions, it is a different story.

Why is that difference important?

Our data indicate that while some small minority-owned banks consistently outperform the industry average for profitability, the majority does not. Nearly 70 percent of small minority-owned institutions last year reported an ROA (return on assets) under one percent. Nearly 40 percent of small minority-owned institutions reported an ROA of less than half the industry average.

Why is that?

The data indicate minority banks tend to have higher levels of non-interest expense, lower average asset yields, and smaller net interest margins than comparably-sized banks and thrifts overall.

The reasons behind these numbers vary - many are unique to the individual institution. However, some common explanations do exist.

Like many other small banks, small minority-owned banks sometimes have difficulty competing with larger institutions in attracting experienced employees. They may also face complications in attempting to diversify credit risk exposure and avoid concentrations of risk. And, it has been a challenge for some to offset operating costs against revenues.

The performance problems of minority-owned institutions are particularly worrisome in view of a recent spate of failures among minority banks. From the beginning of 1998 through the end of the first quarter of 2000, there were 13 failures of FDIC-insured commercial banks and savings institutions.

These failures have occurred during a period of robust economic growth, when overall conditions for financial institutions have been especially favorable. Five of these failures - nearly 40 percent - were minority-owned institutions: Mutual FSB of Atlanta, Georgia; Golden City Commercial Bank, New York; Peoples National Bank of Commerce, Miami, Florida; Omnibank, River Rouge, Michigan; and Victory State Bank, Columbia, South Carolina.

This percentage exceeds the historical experience for minority bank failures, and the failure rate for minority-owned banks has been higher than the rate for other institutions for at least ten years. That's too many failures. That's too many because sometimes when minority banks fail, the cost is particularly heavy and transcends dollars. And more than the stockholders and big depositors lose.

Minority banks generally have close ties to communities that have been traditionally under-served by other financial institutions - communities that are primarily urban and in our nation's largest cities - communities that are often poor and struggling to enter the economic mainstream. When a minority bank fails, neighborhoods lose, families lose, people lose. They lose the funding - and the services - that minority bankers provide - sometimes where no one else will.

Therefore, the FDIC has taken steps to support the minority banking community in important ways. In particular, we provided assistance with new bank and merger applications and change in control notices to a number of minority groups seeking to open a minority-owned institution or preserve the character of minority-owned institutions. We also identify and assist potential minority bidders of a failing minority-owned institution by maintaining a national list of minority institutions and contacting eligible institutions when a minority-owned institution is failing. Upon request, we also provide technical assistance in preparing bid proposals to potential minority bidders for failing minority-owned institutions.

Of the five failed minority-owned institutions over the past three years, in all but one case we were able to find an acquirer that not only was a minority-owned institution but also was of the same minority type as the acquired institution. So, the FDIC has developed a number of ways to provide assistance for minority-owned institutions to acquire failed institutions.

That's good -- but I don't think that it is enough -- and I have to ask myself whether we can find other ways to assist minority banks as ongoing concerns -- for their communities -- for their customers.

More specifically, can we more effectively use a provision of the Community Reinvestment Act (CRA) that is intended to encourage other institutions to support minority-owned banks? In particular, have the banking agencies appropriately implemented a 1992 amendment to the CRA that specifically authorizes each agency, when evaluating a bank's CRA performance, to consider as a factor:

"Capital investment, loan participation, and other ventures undertaken by the institution in cooperation with minority- and women-owned financial institutions and low-income credit unions provided that these activities help meet the credit needs of local communities in which such institutions and credit unions are chartered."

Today, I invite you to help us answer that question.

We have a unique opportunity to address this issue when we revise the Interagency Questions and Answers on CRA, as we do annually. Or, as I suggested in a speech I delivered in June of this year, we could begin our comprehensive review of the existing CRA regulations this year rather than wait for that work to begin in 2002 as the regulators promised when the rules were adopted in 1995.

Since the CRA rules were adopted in 1995, they have permitted banking regulators to consider favorably activities designed to help minority- and women-owned institutions better serve their own communities - as long as those activities are community development loans, investments, or services provided to minority institutions.

And as long as these activities benefit low- and moderate-income individuals or areas within the assisting institution's assessment area or a statewide or regional area that includes its assessment area.

However, as I mentioned earlier, the language in the statute itself does not limit activities to just community development loans or investments.

Rather, in addition to community development loans or investments, the statute more broadly mentions capital investment, loan participations, and, I underscore, "other ventures" undertaken in conjunction with minority-owned banks.

Other ventures -- you don't need to be a lawyer to appreciate that there may be some flexibility there -- and not by accident.

This flexibility - which is not fully reflected in existing regulations or guidance - raises questions for which you may want to offer answers.

We should ask whether banks could better use this special CRA provision to improve their CRA performance and, at the same time, assist minority banks in serving their communities.

We also must ask whether the agencies are doing all we can to encourage both types of institutions to take advantage of these opportunities.

First, shouldn't the regulators give CRA credit to an institution that lends assistance to a minority-owned bank, even if the bank receiving the assistance is outside the assisting bank's assessment area?

Taking it one step further: What about inside - or even outside - the statewide or regional area that includes an assessment area?

It is a simple fact that most banks do not have minority-owned institutions in or near their assessment areas. Why should they be denied the opportunity for CRA credit for providing capital or operational or managerial assistance to a minority bank that needs it?

Doesn't it make more sense to expand the opportunities for any bank to assist minority banks by providing favorable CRA consideration for any activity, supporting any minority bank, located anywhere in the country? Or at least those activities where minority-owned institutions are helping to meet low- and moderate-income credit needs of the communities in which they are located?

It makes sense to me - how about you?

But having raised the issue, I must also ask: Should we give CRA credit even if the minority bank doesn't serve a low- and moderate-income community?

While many minority institutions effectively serve low- and moderate-income credit needs, not all of them do. While many minority-owned institutions successfully reach otherwise under-served markets, not all of them do. Given the differences among minority-owned institutions, should supervisory policy treat them as if they were identical?

The CRA does not necessarily support a complete unbridling of geographic limitations -- or the types of activities that receive favorable CRA consideration. Completely removing the geographic limitations on the support of minority-owned institutions would mean support of those institutions would be evaluated under CRA differently than virtually any other banking activities. If we do so, we must be careful of unintended consequences.

For example, as I alluded to earlier, some minority institutions may target middle- and upper-income markets. Others may target under-served areas and individuals. If we were to consider support of a minority institution irrespective of where it is located or the incomes of the populations served, we could diverge from some fundamental tenets of the CRA.

That said, how do we avoid crediting assistance to minority banks that are doing little community development lending or other lending responsive to the needs of the low- and moderate-income neighborhoods?

And what activities, exactly, can "other ventures" cover?

Clearly, investment and lending activities fit under the umbrella.

Shouldn't training and technical assistance, such as assistance with developing underwriting standards or strengthening back room operations and internal controls?

How about mentoring programs?

I want to find incentives for depository institutions to assist minority-owned institutions. I want to draw attention to this unique provision of the CRA that, we at the FDIC believe, provides one such incentive.

In short, today I propose that we consider a more comprehensive view of the way in which bank supervisors evaluate support of minority-owned institutions in CRA examinations. Current staff interpretations would give consideration to an institution's support of a minority-owned bank's community development activities but only if they benefit the assisting institution's assessment area.

A more comprehensive approach is clearly permitted by the statute. Such an approach could be a win/win for both the minority-owned institution and the institution providing the support. The minority-owned bank might receive assistance needed to continue to

serve its community; the other institution might receive CRA consideration for supporting a minority-owned bank.

Many minority-owned banks - especially smaller banks -- face challenges achieving and sustaining profitability in the markets they serve. Some of you may be facing those challenges yourself. Some of you may be among those having difficulty sustaining your presence in the community.

These challenges are not just yours -- they are ours.

Let's work together -- with the rest of the industry - to find ways to meet these challenges.

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