Opening Remarks
of
Vice Chairman Martin J. Gruenberg
Minority Depository Institutions National Conference
Miami Beach, Florida
August 2, 2006

Good morning. I am pleased to welcome you to the FDIC's national minority depository institutions conference. The FDIC, together with our colleagues from the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Reserve, and state banking departments, hope that this conference will serve as a valuable learning and networking opportunity for all of us. We also hope that it will promote an open dialogue on the unique challenges and opportunities faced by minority banks today. I would like to recognize John Carter, Director of the FDIC's San Francisco Regional Office, and Anthony Lowe, Deputy Director of the FDIC's Dallas Regional Office, for the leadership they provided in organizing this conference.

Importance of Minority Banks in the U.S. Financial System

Minority banks have long performed a vital role in the American financial system by serving the market needs of their local communities. Indeed, African-American owned banks date back to 1888 when the first such minority institutions opened their doors in Richmond, Virginia and Washington, D.C. The history of minority banks in the United States is one of remarkable dedication, resilience, and perseverance. The founder of one of these first minority banks, W. W. Browne, is said to have run his bank out of his own home for its first three years. Later, during the three-year Panic of 1893, the worst economic crisis in the United States at that time, his was the only bank in Richmond, Virginia, to remain open on a normal operating basis.

More recently, we've witnessed the determination and resilience of minority banks in the aftermath of Hurricane Katrina. As many of you know, three banks in the hardest-hit areas of New Orleans are minority owned. In fact, the leaders of these three institutions are here with us today. I'd like to recognize Alden MacDonald, President and CEO of Liberty Bank and Trust Co., Howard Brooks, President and CEO of United Bank and Trust, and Charles Teamer, Chairman of Dryades Savings Bank. These individuals have been true leaders not just for their institutions, but for the entire New Orleans community as it struggles to recover from the impact of the hurricane.

Minority Banks Today

Today there are 190 minority banks promoting the economic development of minority and underserved communities in the United States and its territories. These institutions operate over 1,700 offices in 32 states and territories.

Minority banks are growing, in some areas of the country at a faster rate than non-minority banks. Overall, the number of minority banks has grown over 20 percent since 2000, while FDIC-insured institutions as a whole declined 11 percent. The combined assets of today's 190 institutions amount to $188 billion compared to $74 billion six years ago. This reflects an increase of more than 150 percent over that period compared to a 50 percent increase in the assets of all FDIC-insured banks.

Today's minority banks are an increasingly diverse group of institutions. Of today's 190 minority banks, 38 percent are Asian or Pacific Islander owned, 24 percent are African-American owned, 23 percent are Hispanic-American owned, and 10 percent are Native American or Alaskan Native owned.

Moreover, as the population of the United States becomes increasingly diverse, the importance of minority banks and the role they play in the U.S. financial system should continue to increase. There is perhaps no better location in the United States that demonstrates this than right here in Miami, Florida. A significant trend in the increased diversity of our minority institutions is reflected in the increasing importance of Hispanic-American owned banks, which grew in number from 28 to 44 banks from year-end 2000 to March of this year, a 57 percent increase. Hispanic-American owned banks now account for almost a quarter of minority banks in the U.S.

Challenges Faced by Minority Depository Institutions

Clearly the growth and diversity of minority banks is a success story.

But we are here today not only to celebrate the success of minority banks but to discuss the challenges they face and identify the opportunities that will carry forward their development and growth.

I don't need to tell you about the unique challenges facing your institutions, particularly the smaller ones.

Minority banks must compete with larger financial institutions for both business and a talented work force. Due to their commitment to serve local communities and ethnic populations, some minority banks, particularly those that are smaller, may have difficulty diversifying geographical and credit risk exposures and avoiding concentration risk. Some minority institutions are also challenged with operating in an economically depressed market area, which can affect their asset quality, earnings, and capital performance. Minority banks also face the challenge of maintaining their minority identity and primary customer base while attempting to expand their products, services and overall market presence.

Minority banks more often have to evaluate the need to inject additional capital or face merger with another institution in order to ensure continued business expansion and survival in a highly competitive marketplace. In addition, as with other financial institutions, minority institutions have to guard against poor accounting and internal controls. These weaknesses subject banks to insider abuse or fraud. Certainly there are a range of challenges that face minority institutions.

FDIC Actions Taken to Assist Minority Depository Institutions

FDIC Policy Statement and Related Action

The FDIC has taken a number of actions in recognition of the unique challenges faced by minority banks. The actions date back to 1990 and have increased significantly in recent years. Section 308 of FIRREA establishes several goals for the support of minority owned financial institutions: first, to preserve the number of minority depository institutions; second, to preserve the minority character in cases of merger or acquisition; third, to provide technical assistance to prevent insolvency of institutions not now insolvent; fourth, to promote and encourage creation of new minority depository institutions; and fifth, to provide for training, technical assistance, and educational programs. All of the federal bank regulatory agencies are required by law to help advance these goals.

In order to achieve the goals of Section 308, the FDIC adopted in 1990 a Policy Statement that provided guidance to the banking industry on the FDIC's efforts to encourage and preserve minority depository institutions. In 2002, the FDIC Board adopted a new Policy Statement to provide more structure for the program and to foster better outreach and closer relationships with minority banks. The revised Policy Statement established a new program to enhance communication with minority banks and to better coordinate minority bank-related activities with trade associations and other regulators. In addition, the revised Policy Statement provides for the FDIC to offer technical assistance to minority banks in a number of ways, including assistance in understanding examination or other supervisory recommendations, bank regulations, FDIC policies, examination procedures, and application procedures and requirements.

Every year, a member of our regional management team offers to meet with each FDIC-supervised minority bank to discuss issues of interest. After every FDIC examination of a minority bank, we offer to have staff members come back to the bank a few months later to provide technical assistance on any matters raised during the examination. We have also created a Minority Depository Institutions Web site dedicated to issues, information, and programs relevant to minority banks. The site also contains performance information on each minority bank.

Finally, in September 2005, we issued revised guidance to examiners regarding the program. The guidance stresses that examiners should recognize the distinctive characteristics and differences in core objectives of all financial institutions and consider those unique factors when evaluating an institution's financial condition and risk management practices.

Regional Forums

Regional forums for minority bankers have also played a key role in our efforts to foster better outreach and closer relationships with minority banks. Regional interagency forums have been held annually since the adoption of the revised Policy Statement in all of the FDIC's Regional Offices to discuss the challenges faced by minority banks, share best practices, and evaluate possible ways the regulatory agencies can promote and preserve minority ownership of financial institutions.

Since the program was established in 2002, the FDIC has conducted 13 regional forums to discuss issues facing minority banks. Speakers included representatives from the Federal Reserve, the OCC, the OTS, the Federal Bureau of Investigation, the various state banking departments, and trade organizations. Issues covered included community affairs outreach, de novo community bank applications, the Community Reinvestment Act, fair lending, the USA PATRIOT Act, internal controls, the Bank Secrecy Act, the FDIC's Money Smart Program, and economic trends and developments.

Over 300 bankers from minority banks have attended these forums. Six of the regional forums discussed above were co-hosted with various minority bank trade associations. In addition, FDIC representatives have participated annually in minority bank trade association conferences.

In 2004, the FDIC established an internal Corporate Performance Objective to further enhance its outreach efforts and promote the preservation of minority banks. The objective resulted in the creation of the Minority Bankers' Roundtable series, a forum designed primarily to explore partnerships between the minority banking community and the FDIC. This new outreach initiative was announced in December 2004 and the FDIC held six roundtables in 2005 -- in Nashville, Tennessee; New York, New York; Houston, Texas; Santa Monica, California; Atlanta, Georgia, and San Juan, Puerto Rico. The roundtables complemented the annual outreach programs organized by the FDIC Regional Offices.

We have received positive feedback from the meetings we've held in the various regions and welcome further feedback from you. In fact, the feedback from our regional forums is what led to today's conference. Participants at our regional forums suggested that a national gathering of minority banks and related parties would be beneficial. We believe that this forum represents a unique opportunity for bankers, regulatory officials, and private industry representatives from all areas of the country to exchange information and increase awareness on matters affecting minority-owned institutions.

Regulatory Update

Since I have the opportunity this morning, I would like to speak with you about two additional issues of pressing interest to the FDIC – the implementation of the new deposit insurance reform law, and a new national campaign the FDIC will be undertaking to bring the unbanked into the financial mainstream of our country.

Deposit Insurance

Perhaps the single most pressing priority the FDIC faces this year is the implementation of deposit insurance reform. This afternoon, Don Inscoe, Deputy Director of the FDIC's Division of Insurance and Research, will be talking to you on this subject in some detail so I'll simply share some of the highlights.

As most of you know, the deposit insurance reform legislation was signed into law by the President in February this year. The Congress has given us only nine months from the date the Reform Act was signed to implement the Act's provisions. That means that we have until November 5th to adopt most of the final regulations; this is not much time given the complexity of the law.

We have already taken several steps. First, we merged the Bank Insurance Fund and Savings Association Insurance Fund into the Deposit Insurance Fund, effective March 31st. Second, effective April 1st the FDIC Board adopted regulations raising deposit insurance coverage on certain retirement accounts at a bank or savings institution to $250,000 from $100,000. The basic insurance coverage for other deposit accounts will remain at $100,000. The law provides for an inflation adjustment on the basic insurance coverage every five years.

Third, in May the FDIC Board approved notices of proposed rulemaking, providing a one-time premium assessment credit of $4.6 billion for institutions that paid premiums prior to 1996.

In July, the FDIC Board considered and approved for comment a proposed rule governing deposit insurance assessments. As you may know, the Reform Act requires the FDIC to price the cost of insurance according to the risk of each insured institution. Under the proposal, institutions would pay differing rates in the future, depending upon their risks. The proposal differs somewhat depending upon an institution's size. The FDIC proposes one method for institutions with less than $10 billion in assets and a more complex method for institutions with at least $10 billion in assets.

We expect to adopt final regulations on deposit insurance implementation by November 5th. These reforms have been the subject of much discussion and debate, and I expect this dialogue to continue as we seek public comment on these proposals. The FDIC welcomes your input as we develop the policies and regulations that will implement deposit insurance reform.

Banking the Unbanked

Another important FDIC initiative is promoting expanded opportunities for the underserved banking population in the United States to enter the financial mainstream. Recent studies indicate that a significant portion of the United States population lacks access to the banking system and spends significantly more on financial transactions as a result. One recent study estimated that there are 28 million unbanked people in the

U.S., and 45 million underbanked people lacking access to credit.1 Another recent study indicates that the population underserved by banks is significantly concentrated among minorities. According to this study, 46 percent of African Americans and 34 percent of Hispanic Americans are unbanked.2

This afternoon Michael Frias, the FDIC's Unbanked Campaign Project Manager, will moderate a panel discussion on "blue ribbon" strategies and initiatives to improve the economic well-being of the unbanked and underbanked by expanding their access to the U.S. banking system. The FDIC's Division of Supervision and Consumer Protection is in the process of organizing broad-based coalitions in each of the FDIC's six regions. The coalitions, composed of banks, community organizations, foundations, educators, and local, state, and federal agencies, will focus attention on the market opportunities provided by the unbanked population. Building on the success of its New Alliance Task Force initiatives, FDIC will seek to build partnerships among public, private, and non-profit organizations to bring the unbanked and underserved into the financial mainstream. This is an enormous opportunity for the U.S. banking system. It's a win-win situation for those who lack access to the financial system as well as for financial institutions seeking new market opportunities.

Conclusion

In conclusion, I believe we have an exciting agenda planned for you over the next two days. Throughout the program, we have built in ample opportunity for you to network with your minority institution colleagues, industry participants, and regulators. Our goal over the next two days is to promote constructive dialogue on how minority banks can continue to play a vital role in the U.S. financial system.

Once again, welcome. I hope you enjoy your time here and find it worthwhile. I look forward to a continued close working relationship between minority banks and the FDIC. Thank you.

1 "Private-Label Card Program From GE Offers 'Road to Credit' To Tap Greater Portion of Market," citing statistics from Bearing Point, The Wall Street Journal, July 7, 2006.

2 Sherrie L. Rhine and William H. Greene, "The Determinants of Being Unbanked for U.S. Immigrants," Journal of Consumer Affairs, Summer 2006, Vol. 40 Issue 1, p. 21-40.

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