

GAO

Report to the Chairman, Committee on  
Government Operations, House of  
Representatives

November 1993

# MINORITY-OWNED FINANCIAL INSTITUTIONS

## Status of Federal Efforts to Preserve Minority Ownership



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General Government Division

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The Honorable John Conyers, Jr.  
Chairman, Committee on Government  
Operations  
House of Representatives

Dear Mr. Chairman:

At your request, we reviewed the implementation of section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA)<sup>1</sup> and section 403 of the Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991.<sup>2</sup> These provisions were designed to preserve minority ownership of financial institutions and provide assistance for minority-owned institutions and minority investors with acquiring failed institutions. Accordingly, this report provides information on actions taken by the Department of the Treasury, Federal Deposit Insurance Corporation (FDIC), Office of Thrift Supervision (OTS), and Resolution Trust Corporation (RTC) to satisfy the requirements of sections 308 and 403 to preserve minority ownership of financial institutions. This report also presents the views of the minority business community on the effectiveness of the agencies' programs.

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## Background

Minority-owned financial institutions<sup>3</sup> can serve as valuable resources in furthering the economic viability of minority communities. Accordingly, under section 308 of FIRREA, Congress required the Secretary of the Treasury to consult with the Chairperson of the Board of Directors of FDIC and the Director of OTS on methods to achieve the following five goals:

- preserving the present number of minority depository institutions;
- preserving their minority character in cases involving mergers or acquisition of minority depository institutions;
- providing technical assistance to prevent insolvency of institutions not now insolvent;
- promoting and encouraging creation of new minority depository institutions; and

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<sup>1</sup>Public Law 101-73, 103 Statute 183, 353 (1989).

<sup>2</sup>Public Law 102-233, 105 Statute 1761, 1776 (1991).

<sup>3</sup>Minority-owned financial institutions are institutions that are 51-percent owned by minority individuals or organizations, or in the case of mutual depository institutions, the majority of the Board of Directors, account holders, and the community that it serves are predominately minority. The term minority means any African-American, Hispanic-American, Asian-American, or Native-American.

- providing for training, technical assistance, and educational programs.

FDIC is one of three federal financial institutions regulatory agencies that shares supervisory responsibility for commercial banking organizations.<sup>4</sup> As of March 31, 1993, there were 52 minority-owned banks under FDIC's supervision (see app. I). OTS is the principal federal regulator of thrifts, including the 41 minority-owned thrifts that were in existence as of March 31, 1993 (see app. II).

Under FIRREA, RTC was provided authority to manage and resolve insolvent thrifts.<sup>5</sup> Section 403 of the RTC Refinancing Act required RTC, when resolving failed institutions, to:

- assist minority investors and minority institutions with acquiring a nonminority institution if it has not received acceptable bids for acquiring the failed institution without offering assistance and
- make available to minority institutions and minority investors that acquire nonminority institutions the assets of other institutions in RTC's conservatorship or receivership program.

## Results in Brief

Treasury, FDIC, OTS, and RTC have taken steps to respond to the requirements of section 308 of FIRREA and section 403 of the RTC Refinancing, Restructuring, and Improvement Act of 1991. For example, Treasury responded to the requirements in section 308 by convening meetings with the federal financial institutions regulatory agencies and RTC to discuss efforts relating to the preservation of minority-owned financial institutions. FDIC and OTS also have adopted policies that provide for the preservation of minority ownership of financial institutions through the regular supervisory process. Moreover, on July 14, 1993, FDIC issued a memorandum, which reiterated that, as required by statute, when resolving failed minority-owned banks, bids from qualified minority-owned financial institutions nationwide are to be generally sought before bids from nonminority-owned financial institutions. In addition, both FDIC and OTS can refer to instances in which they have provided technical assistance to minority-owned financial institutions. Finally, RTC issued guidelines that extend preference to minority bidders of the same ethnicity as the failed minority-owned thrift and offers interim capital assistance to successful

<sup>4</sup>The Federal Reserve System and the Office of the Comptroller of the Currency (OCC) are the other two regulatory agencies. We did not review their efforts to preserve minority-owned institutions because they were not assigned responsibilities under section 308.

<sup>5</sup>By law, OTS is not responsible for the resolution of failed thrifts under its supervision.

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minority bidders. RTC also assists minorities who are interested in acquiring failed nonminority-owned financial institutions when no acceptable bids are received.

Each of the agencies stated that its efforts have helped to preserve the minority ownership of financial institutions and referred to data indicating that overall minority-owned financial institutions have held their own and in some cases have increased in size and number. FDIC data showed that the number of minority-owned banks increased from 42 in December 1989 to 52 as of March 31, 1993, while nonminority-owned banks decreased by 658 from 7,458 to 6,800 during this period. Moreover, OTS data showed that the decline in minority-owned thrifts was not as dramatic as the decline in the rest of the thrift industry. For example, between December 1989 and March 31, 1993, minority-owned thrifts were reduced by 27 percent from 56 to 41 while nonminority-owned thrifts decreased 31 percent from 2,541 to 1,761. Finally, since August 1989, RTC resolved 26 of the 29 failed minority-owned thrifts and maintained the minority ownership in 12 of those resolutions.

Nevertheless, during our interviews with the minority banking community they suggested that the agencies could improve their performance. Trade associations representing minority institutions commented that the regulatory agencies have not been proactive in satisfying the statutory requirements. Minority-owned financial institutions gave FDIC and OTS mixed reviews. They suggested that the agencies can improve the sensitivity of their examiners to the unique circumstances of minority-owned financial institutions, provide more technical assistance, and help minority-owned financial institutions gain access to needed capital.

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## Objective, Scope, and Methodology

Our objective was to review agencies' efforts to implement section 308 of FIRREA and section 403 of the RTC Refinancing, Restructuring, and Improvement Act of 1991. In this report we specifically (1) discuss the approaches employed by Treasury, FDIC, OTS, and RTC to satisfy the statutory requirements and (2) provide information on the results of the agencies' efforts. This report also presents the views of the minority banking community on the effectiveness of the agencies' programs.

To achieve our objective, we interviewed Treasury, FDIC, OTS, and RTC headquarters officials responsible for implementing sections 308 and 403. We also interviewed officials in each of FDIC's eight regional offices as well

as OTS' five regions regarding program implementation. In addition, we reviewed FDIC's, OTS', and RTC's policies and procedures on preserving the minority ownership of minority institutions. Moreover, we collected and analyzed statistics from the agencies on the number and size of minority-owned financial institutions. We also reviewed the agencies' reports on the status of minority-owned financial institutions.

To obtain views regarding the effectiveness of agency programs, we interviewed agency officials and met with officials from the National Bankers Association (NBA), American League of Financial Institutions (ALFI), and Minority Asset Recovery Contractors Association (MARCA). Finally, in June 1993, we developed a survey to obtain information on FDIC's and OTS' efforts to assist minority-owned financial institutions. We randomly selected 49 of 95 minority-owned financial institutions and conducted telephone interviews with 48 of them. To increase the accuracy of our information about the overall results from the minority-owned financial institutions, we stratified our sample by type of financial institution, minority group, and location. However, our sample represents the views of the 48 minority bank and thrift executives that we interviewed and does not reflect the views of the other 47 minority-owned financial institutions. We did not independently verify the information we received.

We did our review from November 1992 through July 1993 in accordance with generally accepted government auditing standards.

Treasury, FDIC, OTS, and RTC provided written comments on a draft of this report. These comments are presented in summary in the agency comments section and are reprinted in apps. III through VI.

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## Agencies' Efforts to Implement Sections 308 and 403

Treasury, FDIC, OTS, and RTC have taken steps to satisfy the statutory requirements. In essence, Treasury's approach entails facilitating communication among the federal financial regulatory agencies and RTC regarding minority-owned financial institutions issues. FDIC's approach focuses on preserving minority-owned banks under its normal supervisory and resolution policies and procedures. Similarly, OTS' approach focuses on helping the existing institutions remain viable and profitable through the supervisory review process. RTC extends preference to minority bidders of the same ethnicity as the former owners of the failed minority-owned thrifts and offers capital assistance to the winning minority bidder.

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The following sections describe the agencies' efforts to implement sections 308 and 403.

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## Treasury's Efforts

Section 308 requires the Secretary of the Treasury to consult with the Chairperson of the Board of Directors of FDIC and the Director of OTS on methods for preserving minority-owned financial institutions. Treasury officials interpret their role under this provision as one of coordinating and disseminating information among the federal financial regulatory agencies on methods for preserving minority-owned financial institutions. As such, Treasury officials said that they do not have a specific policy statement for satisfying the requirements of section 308.

Treasury has convened four interagency meetings,<sup>6</sup> on an as needed basis, with representatives from FDIC, OTS, RTC, OCC, the Federal Reserve, and the Thrift Depositor Protection Oversight Board. The purpose of the interagency meetings was to exchange ideas, discuss policies regarding minority-owned financial institutions, and coordinate efforts. For example, at the April 22, 1992, interagency meeting, the agencies discussed alternative methods for providing technical assistance, such as having NBA assist minority-owned financial institutions or having other well-run institutions assist minority-owned financial institutions with their operations.

In addition to the interagency meetings, Treasury's staff of five in the Office of Thrift Institutions Oversight and Policy, each of whom has other responsibilities, prepares quarterly reports that track the status of minority-owned financial institutions. For example, Treasury reviews areas such as capital, assets, earnings, and nonperforming loans to determine any changes since the last quarter. These reports are provided to keep the Assistant Secretary for Domestic Finance at Treasury abreast of the condition of minority-owned financial institutions.

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## FDIC's Efforts

FDIC's approach to preserving minority-owned banks is to maintain the condition of existing minority-owned banks through the regular supervisory process. FDIC officials consider this approach to be consistent with FDIC's responsibility to ensure the safety and soundness of all banks under FDIC's primary supervision. According to FDIC, the examination

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<sup>6</sup>The four interagency meetings were held on March 15, 1990; April 22, 1992; December 4, 1992; and May 8, 1993.

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process was designed to identify problems at any financial institution and aid the management team in correcting them.

With respect to resolving failed minority-owned banks, FDIC generally solicits bids from qualified minority-owned financial institutions nationwide during its marketing efforts. However, the actual selection of the winning bidder is determined by the least cost approach.<sup>7</sup> Moreover, in some cases state law restrictions on interstate acquisitions of failed or failing minority-owned financial institutions may be overridden for the benefit of minority acquirers but not for the benefit of nonminority acquirers.

FDIC also took additional actions to satisfy the requirements of section 308. In April 1990, FDIC issued its policy statement on preserving minority ownership of financial institutions. Among other items, the policy stated that training, education, and technical assistance are available from FDIC in areas of call report<sup>8</sup> preparation, consumer affairs and civil rights, and accounting. Moreover, on July 14, 1993, FDIC supplemented its policy statement with the issuance of a memorandum that required the establishment of a national list of potential minority bidders. The list is to be used to identify and subsequently contact minority investors or minority-owned financial institutions that are interested in acquiring failed institutions. As of August 12, 1993, the list contained about 60 potentially qualified minority bidders.

Initially, the former Director of FDIC's Division of Supervision (DOS) worked jointly with its Office of Equal Opportunity on minority-owned bank issues, including section 308. In September 1992, the current Director of DOS tasked a review examiner in headquarters with implementing section 308. In November 1992, each regional office assigned a review examiner to prepare quarterly reports and address minority-owned bank issues. The quarterly reports included information on (1) minority-owned banks likely to fail; (2) actions taken on merger, acquisition, deposit insurance, and other applications for minority-owned banks; (3) training, education, and technical assistance provided to minority-owned banks; and (4) banks whose performance was marginal or unsatisfactory, regardless of ownership, that serve minority communities.

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<sup>7</sup>The Federal Deposit Insurance Corporation Improvement Act of 1991 prohibits FDIC and RTC from engaging in an assisted resolution of any failed depository institution unless it has been determined that the total amount of expenditures and obligations they will incur is the least costly alternative. (Federal Deposit Insurance Corporation Act of 1991, P. L. 102-242, 105 Stat. 2236, 2273 (1991).)

<sup>8</sup>Call reports contain quarterly financial data on institutions, as requested by the federal financial institution regulatory agencies.



FDIC also provided some assistance to several minority-owned banks. For example, in December 1991, FDIC provided financial assistance to one minority-owned bank by infusing approximately \$1 million into the institution. In another instance, FDIC approved a transaction that allowed a troubled minority-owned bank to acquire a failed credit union in September 1992. FDIC officials stated they would not ordinarily approve a transaction that allows a troubled institution to acquire a failed institution because of the risk involved. According to FDIC officials, FDIC did so in this case because the minority-owned bank's overall financial condition had improved. FDIC has also supported several minority-owned banks by using informal enforcement actions to communicate bank problems identified during the examination. For example, on four occasions FDIC issued memorandums of understanding rather than cease and desist orders, which are more formal and legally enforceable in court if the agreed upon corrections are not completed. Nonetheless, according to FDIC officials, all enforcement actions informal or formal are designed to be remedial in nature.

From August 1989 to July 2, 1993, 11 minority-owned banks had failed. FDIC resolved each of them by preserving the minority ownership of two, selling six to nonminorities, and closing and paying off the depositors of three (see table 1). Moreover, minority-owned banks acquired five failed nonminority-owned banks (see table 2).

**Table 1: Overview of FDIC's Resolutions of Failed Minority-Owned Institutions as of July 2, 1993**

Date closed	Name/location	Minority acquirer		Bank closed and depositors paid off
		Yes	No	
11/17/89	Security National Bank of Shreveport, Shreveport, LA			X
12/07/89	Atlantic National Bank, Norfolk, VA	X		
03/08/90	First Bank National Association, Cleveland, OH			X
07/07/90	Capital National Bank, New York, NY		X	
10/19/90	Metropolitan National Bank, McAllen, TX		X	
11/09/90	Freedom National Bank of New York, New York, NY			X
01/22/91	American Bank, National Association, Rio Rancho, NM		X	
01/24/92	Banco Nacional, National Association, San Juan, PR		X	
06/04/92	Mayfair Bank, Chicago, IL	X		
06/11/93	American Bank and Trust Company, San Jose, CA		X	
07/02/93	Emerald City Bank, Seattle, WA		X	

Source: FDIC.

**Table 2: Nonminority-Owned Institutions Acquired by Minorities**

Date closed	Name/location		Ethnic identity of minority acquirer
	Nonminority instituton	Minority acquirer	
01/26/90	Credit Bank, Cutler Ridge, FL	Capital Bank, Miami, FL	Hispanic-American
02/23/90	The Red River Bank, Red River, NM	Centinel Bank, Taos, NM	Hispanic-American
03/29/90	First National Bank of Garland, Garland, TX	State Bank of Texas, Dallas, TX	Asian-American
03/26/92	Theodore Roosevelt National Bank, Washington, D.C.	Industrial Bank of Washington, Washington, D.C.	African-American
06/25/92	Castle Hills National Bank, San Antonio, TX	International Bank of Commerce, Laredo, TX	Hispanic-American

Source: FDIC.

Overall, the number of minority-owned banks supervised by FDIC increased by 10, from 42 at the end of 1989 to 52 in March 1993 (see table 3). To put this increase in perspective, the number of nonminority-owned banks decreased by 658 from 7,458 to 6,800 during the same period. Furthermore, the total assets held by minority-owned banks have increased steadily. At the end of 1989 minority-owned bank assets totaled approximately \$5 billion (see table 3). By March 1993 the assets had increased to about \$8 billion, which is a 60-percent increase.

**Table 3: Growth Rate of Minority- and Nonminority-Owned Institutions Supervised by FDIC**

Quarter	Dollars in billions			
	Minority-owned institutions		Nonminority-owned institutions	
	Number of institutions	Asset size	Number of institutions	Asset size
4th 1989	42	\$5	7,458	\$776
4th 1990	44	\$5	7,313	\$840
4th 1991	49	\$7	7,108	\$846
4th 1992	51	\$8	6,863	\$854
1st 1993	52	\$8	6,800	\$848

Source: FDIC and Federal Reserve System.

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This growth in asset size and number of minority-owned banks is not to suggest that they have obtained significant representation in the banking industry. Minority-owned banks still represent less than 1 percent of all banks supervised by FDIC. However, the data suggested that minority-owned banks, in general, are holding their own in an industry that during the past 3 years was significantly affected by the weak economy.

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## OTS' Efforts

In October 1990, OTS issued its policy statement on minority-owned thrifts. Essentially, the policy specifies that in supervisory cases involving minority-owned thrifts, OTS will seek to maintain the minority characteristics provided they are consistent with OTS' responsibility to ensure the safety and soundness of all thrifts. OTS also assigned two headquarters staff persons, who also have other responsibilities, to implement the requirements of section 308. Moreover, each regional office has designated an individual to serve as the minority thrifts' contact to address their concerns.

Another component of OTS' program is the annual certification of minority-owned savings associations. Each year, OTS recertifies the minority characteristics of all privately owned savings associations. Minority savings associations are asked to provide information on, for example, whether they are minority owned or controlled. In addition, the associations are asked to describe how they are servicing the minority community in which they were chartered to do business. According to OTS officials, this certification effort provides them with useful information on a thrift's minority ownership and other characteristics.

OTS also consulted with ALFI and participated in various seminars designed to reach out to minority communities. In addition, as required by law, OTS annually reports to Congress its efforts to implement section 308.<sup>9</sup>

Furthermore, OTS offers technical assistance to minorities on an institution-specific basis. During 1992, OTS provided technical assistance to 16 minority-owned savings associations. One example included the approval of a \$1 million stock sale by an undercapitalized minority-owned thrift to a nonminority-owned thrift holding company. This purchase, which improved the minority thrift's ability to meet its capital requirement,

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<sup>9</sup>FIRREA did not require Treasury and FDIC to provide Congress with information on their efforts.

was done through a qualified stock issuance.<sup>10</sup> OTS also intervened on behalf of a minority-owned thrift to address concerns raised by a state banking commission about the thrift's viability and helped it find a temporary managing officer and consultant to correct problems. In another instance, OTS granted an exemption that allowed a senior officer from a nonminority-owned thrift to serve on a minority thrift's board of directors and helped the thrift identify an officer and waived the \$600 application fee for the exemption.

Nonetheless, the number of minority-owned thrifts declined as the thrift industry, in general, continued to downsize. However, the minority-owned thrifts have not experienced quite as strong a decline as the thrift industry overall. In December 1989, OTS supervised 56 minority-owned thrifts. As of March 1993, the number was reduced to 41, which is a decline of 27 percent. During this same period, the number of nonminority-owned thrifts declined by 31 percent from about 2,541 to 1,761 (see table 4). Equally important, the decrease in the amount of assets held by minority-owned thrifts was not as dramatic as the decrease of nonminority-owned thrifts. For example, while the assets held by minority-owned thrifts declined from \$7 billion at the end of 1991 to \$6 billion at the end of 1992, by the end of the first quarter of 1993 the assets had increased to \$7 billion. In contrast, the assets of nonminority-owned thrifts declined by \$141 billion from \$870 billion to \$729 billion during this same period (see table 4).

**Table 4: Growth Rate of Minority- and Nonminority-Owned Thrifts**

Quarter	Minority-owned thrifts		Nonminority-owned thrifts	
	Number of thrifts	Asset size	Number of thrifts	Asset size
4th 1989	56	N/A	2,541	N/A
4th 1990	49	N/A	2,293	N/A
4th 1991	45	\$7	2,051	\$870
4th 1992	42	\$6	1,813	\$788
1st 1993	41	\$7	1,761	\$729

Note: OTS could not provide financial data for 1989 and 1990.

Source: OTS.

<sup>10</sup>Under FIRREA, a thrift that fails to meet minimum regulatory capital requirements may sell up to 15 percent of its stock to a thrift holding company without the buyer considered to be in control of the institution.

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## RTC's Efforts

RTC's approach to preserving the minority ownership of financial institutions is guided by its Minority Preference Resolution Program. RTC officials are of the opinion that this program will enable them to preserve the minority ownership of some failed minority-owned thrifts, thus increasing the total number of minority-owned financial institutions. Under this program, RTC extends preferences to bidders of the same ethnicity as the previous owners of the failed minority-owned thrift. Moreover, as of September 14, 1993, RTC had registered 297 minority investors or minority-owned financial institutions for its list of potential bidders.

RTC also offers interim capital assistance, in the form of loans, to successful minority bidders to facilitate the acquisition of institutions. The amount of the interim capital assistance that successful minority bidders may receive is two thirds of the minimum capital required by the chartering and regulatory agencies and is subject to repayment within 2 years. RTC had provided over \$7 million in interim capital assistance to six minority investors or institutions as of May 18, 1993.

Since its inception in August 1989 through May 18, 1993, RTC had resolved 26 of the 29 failed minority-owned thrifts. Minority ownership was preserved in 12 of the 26 resolutions (see table 5). According to RTC, 9 of the remaining 14 failed minority-owned thrifts were acquired by nonminority-owned institutions because no acceptable proposals were received from minorities. However, the thrifts remain in their previous locations and continue to serve the community. Finally, RTC closed five minority-owned thrifts because no qualified minority or nonminority group expressed an interest in acquiring them.

**Table 5: Overview of RTC's Resolution of Failed Minority-Owned Thrifts as of May 18, 1993**

Date resolved	Name/location	Minority acquirer		Thrift closed and depositors paid off
		Yes	No	
05/11/90	State Mutual Federal Savings and Loan Association, Jackson, MS	X		
05/18/90	Community Federal Savings and Loan Association, Newport News, VA	X		
05/18/90	Peoples Savings & Loan Association, F.A., Hampton, VA	X		
05/18/90	City Federal Saving and Loan Association, Oakland, CA	X		
05/31/90	Sun Country Savings Bank of New Mexico, FSB, Albuquerque, NM			X
06/08/90	Gateway Federal Savings Bank, Oakland, CA	X		
06/29/90	Valley Federal Savings Association, McAllen, TX	X		
08/17/90	Miami Savings Bank, Miami, FL		X	
08/17/90	First Federal Savings and Loan Association, Baton Rouge, LA	X		
08/31/90	Caguas-Central Federal Savings Bank of Puerto Rico, Caguas, PR		X	
09/07/90	Community Federal Savings and Loan Association, Tampa, FL			X
09/14/90	Equity Federal Savings Bank, Denver, CO			X
09/28/90	United Federal Savings, F.A., New Orleans, LA	X		
11/09/90	Bank USA, SA, Silvis, IL		X	
01/11/91	General Federal Savings Bank, Coral Gables, FL		X	

(continued)

Date resolved	Name/location	Minority acquirer		Thrift closed and depositors paid off
		Yes	No	
01/11/91	Padre Federal Savings and Loan Association, Corpus Christi, TX			X
01/18/91	Founders Federal Savings and Loan Association, Los Angeles, CA	X		
01/18/91	Silver Savings Association, F.A., Silver City, NM		X	
05/17/91	Time Federal Savings and Loan Association, San Francisco, CA		X	
06/07/91	Liberty Federal Savings Bank, Montebello, CA		X	
06/28/91	Amigo Federal Savings and Loan Association, Brownsville, TX	X		
08/26/91	Standard Federal Savings Association, Houston, TX			X
10/11/91	Tuskegee Savings and Loan Association, F.A., Tuskegee, AL	X		
02/07/92	Connecticut Federal Savings and Loan Association, Hartford, CT		X	
03/19/92	New Age Federal Savings Association, St. Louis, MO		X	
03/05/93	Enterprise Savings and Loan Association, Compton, CA	X		

Source: RTC.

In April 1992, RTC amended its minority preference resolution guidelines to comply with section 403 of the RTC Refinancing, Restructuring, and Improvement Act of 1991, which provides for assisting minority investors or institutions with acquiring failed nonminority-owned thrifts. Specifically, the guidelines state that when no acceptable bids are received for failed nonminority-owned institutions RTC may accept bids from minority investors or institutions and may provide interim capital



assistance. Furthermore, RTC guidelines provide for the sale of assets at market price to augment the earnings of the new minority-owned institution that acquired the nonminority-owned institution. Since RTC's 1989 inception, one minority-owned institution has acquired a failed nonminority institution from RTC. United Bank of Philadelphia acquired Chase Federal Savings and Loan Association, which is also located in Philadelphia, on July 30, 1993.

## Mixed Views on Effectiveness of Agencies' Programs

Despite the agencies' efforts to preserve the minority ownership of financial institutions, the minority trade associations and the executives of minority-owned financial institutions have mixed perceptions of the effectiveness of these agencies' programs.

The trade associations are under the impression that the agencies have not taken sufficient actions to preserve minority-owned financial institutions. For example, ALFI, which represents most minority-owned savings and loan associations in the country, stated that OTS' policy requiring \$2 million in capital for new owners to acquire a failed thrift is restrictive and discourages potential minority investors. Moreover, ALFI contends that OTS does not have a formal technical assistance program to assist minority-owned thrifts. ALFI would like to see OTS improve its efforts by providing sensitivity training for bank examiners, becoming more aggressive in chartering new thrifts, and demonstrating greater commitment by OTS' top management.

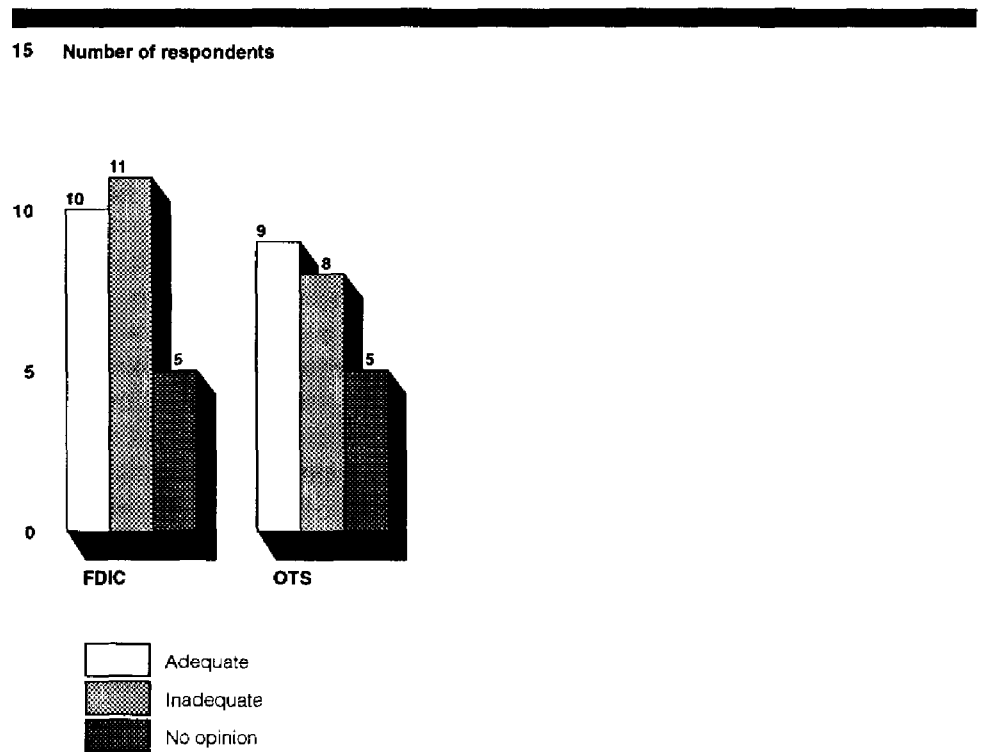
The NBA, which represents minority- and women-owned banks, also offered some suggestions on how the agencies can improve their efforts. One suggestion is to establish a fund managed by FDIC to allocate capital to minority-owned financial institutions that are attempting to acquire an institution that is about to fail. According to NBA, the capital note is to be in the form of a loan to the acquirer and subject to repayment. FDIC is currently reviewing NBA's proposal. NBA also suggested that it be invited to meet with Treasury and FDIC on a quarterly basis to discuss problems and concerns of minority-owned financial institutions.

MARCA, which advocates the interests of minority- and women-owned businesses, including financial institutions and investment banking firms and other related professional entities, said that minorities have not experienced much success with purchasing assets or failed nonminority-owned institutions from RTC. They contend that minorities are treated differently than nonminorities by RTC. As such, MARCA suggested

that RTC extend preference to minority groups when considering offers to acquire nonminority-owned institutions or branches located in minority communities.

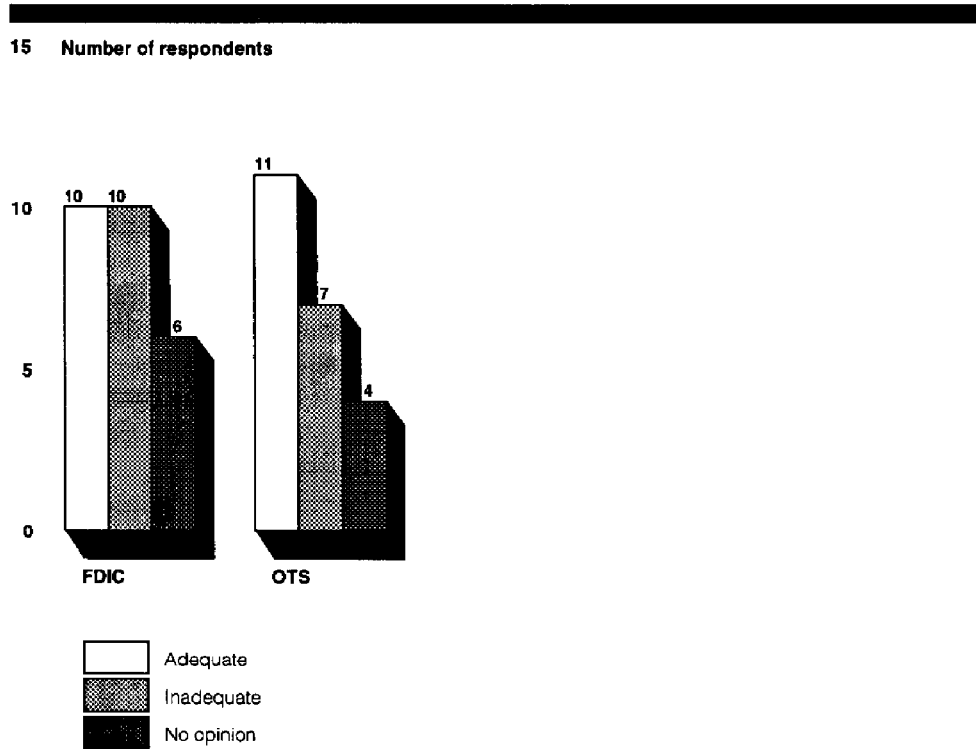
The 48 executives at minority-owned financial institutions whom we surveyed had mixed views on whether the amount of assistance provided by FDIC and OTS was adequate (see fig. 1).

**Figure 1: Mixed Views on Adequacy of Assistance Provided to Minority-Owned Financial Institutions by FDIC and OTS**



Similarly, the executives had diverse views on FDIC's and OTS' efforts to preserve their institutions (see fig. 2).

**Figure 2: Diverse Views on FDIC's and OTS' Efforts to Preserve Minority-Owned Institutions**



In our discussions with executives at minority-owned financial institutions, they elaborated on their views regarding FDIC's and OTS' efforts to provide assistance and preserve minority-owned financial institutions. Specifically, several executives commended OTS on its assistance and readiness to help. One executive complimented OTS on its quick approval of a transaction, thus preventing any obstacles that might have discouraged the investor. Similarly, some minority bank executives stated that FDIC was responsive to their needs. One executive stated that FDIC assisted the institution with receiving financing from a local foundation. Another executive commented that FDIC was responsive to questions about regulations.

In contrast, several executives expressed dissatisfaction with FDIC's and OTS' efforts to preserve their institutions. For example, one executive commented that FDIC was on a mission to destroy the bank, while another stated that OTS had not been helpful but had encouraged them to get out of the business. FDIC and OTS officials contend that various factors, chief

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among them the institutions' financial conditions, accounted for the negative nature of some of the executives' comments.

The executives also offered suggestions for improving the regulatory agencies' efforts to preserve minority ownership of financial institutions. One executive said that FDIC needs to develop special initiatives coordinated with NBA to help existing minority-owned financial institutions address capital needs, management issues, and regulatory concerns. Several executives commented that FDIC and OTS should provide their examiners with training on the unique circumstances of the minority-owned banking community and its practices. Other executives recommended that OTS and FDIC not use the same procedures to examine smaller institutions' loan portfolios that are used to examine larger banks. Finally, overall, the executives concluded that the amount of assistance provided by FDIC and OTS was inadequate. Accordingly, they suggested that more technical assistance could be provided.

FDIC and OTS said they have complied with the requirements of the law given that their missions are to ensure the safety and soundness of all institutions. However, neither had evaluated its program's effectiveness. More specifically, the agencies had not surveyed minority-owned financial institutions to determine whether their approaches were satisfying the statutory requirements. OTS said that it attempts to obtain comments from minority savings associations on issues affecting them during the annual certification process. However, OTS officials acknowledged that they generally had not received much feedback. FDIC, on the other hand, stated that although it had started to collect information on the financial condition of minority-owned banks, it had not obtained comments from the minority banking community to determine the effectiveness of its program. Officials at FDIC and OTS said that their focus had been on implementation rather than evaluation of their programs.

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## Conclusions

While the agencies had taken some steps to preserve the minority ownership of financial institutions, they had not assessed whether the steps were effective. We believe that periodically surveying minority-owned financial institutions to assess the effectiveness of the current approaches is essential given the goals of the legislation and the mixed views from the minority banking community regarding the agencies' efforts. In addition, until the agencies evaluate the effectiveness of their current approaches, they remain vulnerable to the perception that they

have not taken sufficient steps to preserve minority ownership of financial institutions.

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## Recommendation

We recommend that the Secretary of the Treasury consult with FDIC, OTS, and RTC to systematically assess the effectiveness of their approaches to preserve minority-owned financial institutions. We believe that a key component of this effort should be surveys of minority-owned financial institutions to obtain their views on the efforts that are employed to preserve their institutions.

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## Agency Comments

Treasury, FDIC, OTS, and RTC provided written comments on a draft of this report (see apps. III through VI). The four agencies agreed with our recommendation. Treasury agreed that its efforts to preserve minority-owned institutions should include a survey of minority-owned institutions for feedback on agency policies. Treasury also stated that it would reexamine its role with regard to section 308. FDIC asserted that it had exceeded section 308 of FIRREA's requirement that it merely consult with Treasury and had instead instituted an extensive program that seeks to preserve minority ownership. However, FDIC agreed that there is a need to assess its program's success and plans to investigate an appropriate evaluation method. OTS noted that it would be pleased to join in any interagency effort to develop objective and appropriate assessment tools for evaluating the agencies' approaches to preserving minority-owned financial institutions. Finally, RTC stated it had already drafted a survey that will be mailed to all registered minority-owned firms, investors, and consultants to obtain information on their experiences in dealing with RTC (see app. VI).

FDIC and OTS also suggested some technical corrections, which we incorporated in our report as appropriate.

We believe that the agencies' proposed actions will help achieve the goals of sections 308 and 403.

---

As arranged with the Committee, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies of this report to interested parties. Copies will also be made available to others on request.

---

The major contributors to this report are listed in appendix VII. Please contact me on (202) 736-0479 if you have any questions concerning this report.

Sincerely yours,

A handwritten signature in cursive script that reads "Gaston L. Gianni, Jr.".

Gaston L. Gianni, Jr.  
Associate Director, Government  
Business Operations Issues

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# Minority-Owned Banks Supervised by FDIC as of March 31, 1993

Dollars in thousands		
Banks	Ethnic Identity	Assets
1. First Tuskegee, Tuskegee, AL	African-American	\$37,241
2. American Bank and Trust Company, San Jose, CA	Asian-American	35,577
3. American International Bank Los Angeles, CA	Asian-American	398,364
4. Capital Bank of California Los Angeles, CA	Hispanic-American	228,720
5. Cathay Bank, Los Angeles, CA	Asian-American	849,028
6. Eastern International Bank, Alhambra, CA	Asian-American	92,382
7. General Bank, Los Angeles, CA	Asian-American	879,378
8. Pacific Heritage Bank, Torrance, CA	Asian-American	220,709
9. Pan American Bank Los Angeles, CA	Hispanic-American	65,339
10. Preferred Bank, Los Angeles, CA	Asian-American	118,195
11. United American Bank, Westminster, CA	Asian-American	33,519
12. Western State Bank, Duarte, CA	Asian-American	49,080
13. Industrial Bank of Washington, Washington, D. C.	African-American	182,471
14. Capital Bank, Miami, FL	Hispanic-American	1,154,043
15. Carver State Bank, Savannah, GA	African-American	17,736
16. First Southern Bank, Lithonia, GA	African-American	25,193
17. Bank of Guam, Agana, Guam	Asian-American	562,499
18. Bank of Honolulu, Honolulu, HI	Asian-American	105,983
19. Community Bank of Lawndale, Chicago, IL	African-American	34,326
20. Foster Bank Chicago, IL	Asian-American	75,524

(continued)



**Appendix I**  
**Minority-Owned Banks Supervised by FDIC**  
**as of March 31, 1993**

Dollars in thousands

<b>Banks</b>	<b>Ethnic identity</b>	<b>Assets</b>
21. Highland Community Bank, Chicago, IL	African-American	74,847
22. Independence Bank of Chicago, Chicago, IL	African-American	141,772
23. International Bank Chicago, Chicago, IL	Asian-American	8,983
24. Mutual Trust & Savings Bank, Harvey, IL	Asian-American	24,544
25. Douglass Bank, Kansas City, KS	African-American	29,016
26. Liberty Bank and Trust Company, New Orleans, LA	African-American	91,575
27. United Bank & Trust Company, New Orleans, LA	African-American	27,412
28. Boston Bank of Commerce, Boston, MA	African-American	73,894
29. Liberty Bank and Trust Company, Boston, MA	Asian-American	24,433
30. Harbor Bank of Maryland, Baltimore, MD	African-American	58,095
31. Lumbee Guaranty Bank, Pembroke, NC	Native-American	37,482
32. Mechanics & Farmers Bank, Durham, NC	African-American	110,769
33. Centinel Bank of Taos, Taos, NM	Hispanic-American	64,252
34. El Pueblo State Bank, Española, NM	Hispanic-American	31,977
35. Golden City Commercial Bank, New York, NY	Asian-American	64,310
36. American State Bank, Tulsa, OK	African-American	17,143
37. First State Bank, Hulbert, OK	Native-American	16,311
38. American State Bank, Portland, OR	African-American	11,850
39. Banco Financiero de Puerto Rico, Ponce, PR	Hispanic-American	43,460
40. Victory Savings Bank, Columbia, SC	African-American	14,762

(continued)

**Appendix I**  
**Minority-Owned Banks Supervised by FDIC**  
**as of March 31, 1993**

Dollars in thousands

<b>Banks</b>	<b>Ethnic identity</b>	<b>Assets</b>
41. Citizens Savings Bank and Trust Company, Nashville, TN	African-American	34,991
42. Tri-State Bank of Memphis, Memphis, TN	African-American	76,015
43. Commerce Bank, Laredo, TX	Hispanic-American	96,292
44. Falfurrias State Bank, Falfurrias, TX	Hispanic-American	12,222
45. First Texas Bank, Dallas, TX	African-American	106,758
46. International Bank of Commerce, Brownsville, TX	Hispanic-American	150,422
47. International Bank of Commerce, N. A., Zapata, TX	Hispanic-American	76,401
48. International Bank of Commerce, Laredo, TX	Hispanic-American	1,539,617
49. State Bank Texas, Dallas, TX	Asian-American	26,200
50. First State Bank, Danville, VA	African-American	30,540
51. Emerald City Bank, Seattle, WA	African-American	7,845
52. North Milwaukee State Bank, Milwaukee, WI	African-American	30,147
<b>Total</b>		<b>\$8,319,644</b>

Source: FDIC and Federal Reserve System's Minority Bank Depository Program listing.

# Minority-Owned Thrifts Supervised by OTS as of March 31, 1993

Dollars in thousands		
Thrifts	Ethnic identity	Assets
1. Citizens Federal Savings Bank, Birmingham, AL	African-American	\$79,105
2. Gulf Federal Bank, FSB, Mobile, AL	African-American	12,112
3. Broadway Federal Savings and Loan Association, Los Angeles, CA	African-American	99,071
4. Family Savings and Loan Association, Los Angeles, CA	African-American	153,104
5. First Global Bank, FSB, Los Angeles, CA	Asian-American	60,510
6. First Public Savings Bank, Los Angeles, CA	Asian-American	249,266
7. Gateway Bank, FSB, San Francisco, CA	Asian-American	59,194
8. Sincere Federal Savings Bank, San Francisco, CA	Asian-American	75,097
9. Standard Savings Bank, Los Angeles, CA	Asian-American	328,410
10. Trust Savings Bank, Arcadia, CA	Asian-American	110,024
11. Independence Federal Savings Bank, Washington, D. C.	African-American	247,084
12. First Florida Savings Bank, FSB, Miami, FL	Hispanic-American	93,746
13. Interamerican Federal Savings Bank, Miami, FL	Hispanic-American	124,631
14. Metro Savings Bank, FSB, Orlando, FL	African-American	10,440
15. Ponce De Leon Federal Savings and Loan Association, Coral Gables, FL	Hispanic-American	67,552
16. Mutual Federal Savings & Loan Association of Atlanta, Atlanta, GA	African-American	36,146
17. Guam Savings & Loan Association, Agana, Guam	Asian-American	52,062

(continued)

**Appendix II**  
**Minority-Owned Thrifts Supervised by OTS**  
**as of March 31, 1993**

Dollars in thousands

<b>Thrifts</b>	<b>Ethnic Identity</b>	<b>Assets</b>
18. International Savings & Loan Association Honolulu, HI	Asian-American	454,182
19. Territorial Savings and Loan Association, Honolulu, HI	Asian-American	303,072
20. Illinois Service Federal Savings and Loan Association, Chicago, IL	African-American	103,938
21. Advance Federal Savings & Loan Association Baltimore, MD	African-American	34,782
22. Ideal Federal Savings Bank, Baltimore, MD	African-American	7,573
23. Home Federal Savings and Loan Association, Detroit, MI	African-American	21,765
24. First Commerce Savings Bank, FSB, Jackson, MS	African-American	7,524
25. Dona Ana Savings and Loan Association, F. A., Las Cruces, NM	Hispanic-American	57,569
26. Abacus Federal Savings Bank, New York, NY	Asian-American	65,971
27. Carver Federal Savings Bank, New York, NY	African-American	328,889
28. Chinatown Federal Savings Bank, New York, NY	Asian-American	70,356
29. Ponce De Leon Federal Savings Bank, Bronx, NY	Hispanic-American	118,918
30. Berean Federal Savings Bank, Philadelphia, PA	African-American	31,447
31. Dwelling House Savings and Loan Association, Pittsburgh, PA	African-American	16,568
32. Caribbean Federal Savings Bank, Carolina, PR	Hispanic-American	76,713

(continued)

**Appendix II**  
**Minority-Owned Thrifts Supervised by OTS**  
**as of March 31, 1993**

Dollars in thousands

<b>Thrifts</b>	<b>Ethnic identity</b>	<b>Assets</b>
33. Catano Federal Savings and Loan, Association, Catano, PR	Hispanic-American	13,369
34. Fajardo Federal Savings Bank, Fajardo, PR	Hispanic-American	29,813
35. First Federal Savings Bank, Santurce, PR	Hispanic-American	1,794,727
36. R&G Federal Savings Bank, Guaynabo, PR	Hispanic-American	219,995
37. Western Federal Savings Bank, Mayaguez, PR	Hispanic-American	664,145
38. Eastern American, FSB, McLean, VA	Asian-American	54,339
39. Imperial Savings and Loan Association, Martinsville, VA	African-American	8,394
40. United Savings and Loan Bank, Seattle, WA	Asian-American	160,250
41. Columbia Savings and Loan Association, Milwaukee, WI	African-American	12,828
<b>Total</b>		<b>\$6,514,681</b>

Source: OTS data.

# Comments From the Department of the Treasury



UNDER SECRETARY

DEPARTMENT OF THE TREASURY  
WASHINGTON

October 13, 1993

Gaston L. Gianni, Jr.  
Associate Director, Government  
Business Operations Issues  
General Government Division  
United States General Accounting Office  
Washington, D.C. 20548

Dear Mr. Gianni:

Thank you for the opportunity to provide comments on your report Minority-Owned Financial Institutions: Status of Federal Efforts to Preserve Minority Ownership, dated September 1993. This letter is in response to the recommendations made in that report.

GAO auditors reviewed Treasury's implementation of section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) which requires Treasury to consult with the Federal Deposit Insurance Corporation and the Office of Thrift Supervision on methods to preserve minority ownership of financial institutions. The auditors recommend that the Secretary of Treasury lead an effort to systematically assess the effectiveness of the agencies' approaches to preserve minority-owned financial institutions. In addition, the auditors believe this effort should include surveying minority-owned financial institutions to obtain their views on the efforts that are employed to preserve their institutions.

The Treasury strongly supports the goals, outlined in Section 308 of FIRREA, of preserving existing minority-owned financial institutions and encouraging the creation of new ones. As your report notes, Treasury has sponsored four interagency meetings to review and coordinate agency policies regarding minority-owned depository institutions and actively monitors the status of these institutions. We believe these efforts greatly contribute to the process by which the agencies can assess the effectiveness of their minority-owned institution policies.

Historically, Treasury's responsibility under Section 308 has been to facilitate the flow of information among the agencies. Therefore, in order to ensure a complete review of agency policies, participation in the regular interagency meetings was expanded beyond the statutory requirements to include the Office of Comptroller of the Currency, the Federal Reserve, the Resolution Trust Corporation, and the Thrift Depositor Protection Oversight Board. At the most recent April 1993 meeting, and at Treasury's request, the National Credit

See p. 5.

Appendix III  
Comments From the Department of the  
Treasury

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Union Administration and the Commerce Department's Minority Business Development Agency made presentations covering their agencies' policies and programs to aid minority-owned financial institutions.

Treasury agrees with the GAO auditors that our efforts should include surveying minority-owned institutions for feedback on agency policies. We will re-examine the role that Treasury should take with regard to its Section 308 responsibilities.

Thank you again for the opportunity to comment on your draft report.

Sincerely,



Frank N. Newman  
Under Secretary of the Treasury  
Domestic Finance

See p. 19.

# Comments From the Federal Deposit Insurance Corporation

## FDIC

Federal Deposit Insurance Corporation  
Washington, DC 20429

Office of Executive Director  
Supervision and Resolutions

October 12, 1993

Mr. Gaston L. Gianni, Jr.  
Associate Director, Government  
Business Operations Issues  
United States General Accounting Office  
Washington, D.C. 20548

Dear Mr. Gianni:

**SUBJECT: Response to Draft GAO Report to the Chairman, Committee  
on Government Operations, House of Representatives**

Thank you for the opportunity to further explain our compliance efforts with section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). It is evident that prior to the publication of the report entitled Minority-Owned Financial Institutions: Status of Federal Efforts to Preserve Minority Ownership further clarification is needed.

### Summary of FDIC Efforts:

It should be noted that we have undertaken extensive efforts on behalf of section 308 of FIRREA which we feel far exceed the statutory mandate of merely consulting with Treasury. While your report mentioned these endeavors, we would like to present a more comprehensive summary of our efforts:

- On April 3, 1990, the FDIC Board of Directors adopted a policy statement which recognized the unique status of minority-owned depository institutions in the financial system and expressed the Division of Supervision's policy of preserving minority ownership of financial institutions and encouraging minority participation in the management of financial institutions. This policy statement is crucial for understanding the FDIC's efforts with respect to preserving and working with minority-owned institutions and as such, we are attaching a copy to this response.

See p. 6.

See comment 1.



Appendix IV  
Comments From the Federal Deposit  
Insurance Corporation

Mr. Gaston L. Gianni

2

See p. 6.

- On November 11, 1992, the Division of Supervision issued a regional directive requiring the designation of regional minority-owned institutions banking coordinators. These individuals would be responsible for quarterly reports which would detail the actions taken by the region to further section 308's goals. The four quarterly reporting requirements are detailed on page 12 of your report. It should be noted that item (4) "a listing of banks whose performance is marginal or unsatisfactory, regardless of ownership, that serve minority communities" goes far beyond section 308's legislative intent. With this information, we seek to have warning well in advance should an institution be in danger of failing which predominately serves a minority community. As such, we can monitor and ensure the continuance of banking services to these communities.

See pp. 2 and 6.

- On July 14, 1993, the Division of Supervision issued a directive reiterating the procedures for failing minority owned institutions. Page 4 of your report implies that this memorandum instituted the preference for minority bidders which is not the case. Rather, this preference is statutorily mandated in some cases by section 13 (f) of the Federal Deposit Insurance Corporation Act. Specifically, when an override of state law is necessary to effect the acquisition of a failed or failing minority institution, section 13(f)(6)(C) provides that the FDIC shall seek offers for the resolution of a failing minority institution prior to seeking offers from non-minority acquirers and section 13(f)(12) removes the asset size threshold for interstate acquisitions in the case of minority bidders for a failing minority-owned institution.

See comment 2.

The Results of the Survey are Inconclusive:

We found the survey you developed to ascertain the effectiveness of the agencies' programs interesting. However, we are not sure what conclusions to draw. First of all, without the benefit of having the actual survey questions included in the report, there is no way to determine the nature and connotation of the questions posed. Secondly, it is difficult to analyze the results since the terms "mixed" and "diverse" are used to describe the views of the respondents. These conclusions are further illustrated by the charts on pages 27 and 28 which indicate that the responses to the two questions are just about evenly split between those who deem our efforts to be adequate and those who do not. In addition, there is the proportionately significant group who offered no opinion at all.

Now on pp. 16 and 17.

Appendix IV  
Comments From the Federal Deposit  
Insurance Corporation

Mr. Gaston L. Gianni

3

Ownership Considerations are Not a Factor for Enforcement  
Actions:

Now on p. 7.

See p. 7.

We wish to clarify comments on pages 12 and 13 of the report which could be misconstrued to indicate that the FDIC has on occasion been more "lenient" with respect to its enforcement actions directed towards a minority institution. Page 13 reports that on four occasions, FDIC "issued memorandums of understanding rather than cease and desist orders, which are more formal and legally enforceable in court...". We wish to emphasize that all enforcement actions, albeit formal or informal are designed to be remedial in nature. Whether a given formal or informal approach is taken would depend on a variety of factors inherent in the individual institution. While it is true that we work closely with minority-owned institutions which in some instances might obviate the need for a more formal action, in general we would assuredly take whatever enforcement action deemed necessary, regardless of ownership considerations.

Technical Corrections:

A few technical corrections need to be made:

Now on p. 7.

- Page 12 discusses the FDIC's approval of a transaction which allowed a troubled minority-owned bank to acquire a failed credit union in September 1992 resulting in the improvement of the bank's overall financial condition not "rating" as indicated in the report.

Now on p. 6.

- Page 10's discussion of the minority bank resolution process should read as follows:

With respect to resolving failed minority-owned banks, the FDIC will generally solicit bids from eligible minority-owned financial institutions nationwide during its marketing effort. The actual selection of the winning bidder is governed by the least cost approach as mandated by the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA")'s amendments to section 13(c) of the FDI Act. In some cases, section 13(f) of the FDI Act preempts state law restrictions on interstate acquisitions of failed or failing minority institutions for the benefit of minority acquirers but not for the benefit of non-minority acquirers.

Now on p. 24.

- Page 36 lists as a source the Federal Reserve System. This should instead be the listing of institutions participating in the Federal Reserve Board's Minority Bank Depository Program prepared by the Board of Governors of the Federal Reserve System.

Appendix IV  
Comments From the Federal Deposit  
Insurance Corporation

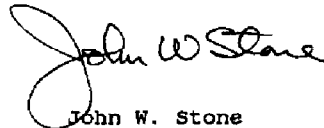
Mr. Gaston L. Gianni

4

Conclusion:

In conclusion, we appreciate this opportunity to provide commentary on our continuing efforts to be sensitive to the needs of the minority-owned institutions under our jurisdiction. We assert that we have exceeded FIRREA's section 308 statutory requirements that we merely consult with Treasury, and we have instead instituted an extensive program which seeks to preserve minority ownership. Furthermore, our program extends to ensuring continued banking services to minority communities as well. We do agree, however, that there is a need to assess the success of our programs and therefore we concur with your comments in this regard and will investigate an appropriate evaluation method.

Sincerely,



John W. Stone  
Executive Director

Attachment

See p. 19.

---

**GAO Comment**

1. The policy statement was summarized on page 6. As a result, we have excluded the entire policy statement from the report.

2. In our telephone survey of executives at minority-owned financial institutions, we interviewed them on FDIC and OTS' efforts regarding assistance, preservation, expansion, and suggestions for improvements. The information obtained from the executives is discussed on pages 17 through 19 of this report.

# Comments From the Office of Thrift Supervision



Office of Thrift Supervision  
Department of the Treasury

*Director*

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

Mr. Gaston L. Gianni, Jr.  
Associate Director  
Government Business Operations Issues  
General Accounting Office  
Washington, D.C. 20548

Dear Mr. Gianni:

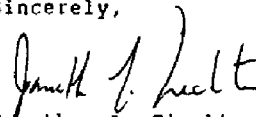
Thank you for the opportunity to comment on your draft report entitled Minority-Owned Financial Institutions: Status of Federal Efforts to Preserve Minority Ownership. Enclosed are some technical comments.

Your major substantive recommendation is that the Secretary of the Treasury lead an effort to assess in a formal and systematic manner the effectiveness of the agencies' approaches to preserving minority-owned financial institutions. We will be pleased to join in any interagency effort to develop objective and appropriate assessment tools.

We are committed to preserving minority institutions and we are always interested in how we can continue to strengthen our program.

Please let me know if we can be of any further assistance.

Sincerely,

  
Jonathan L. Fiechter  
Acting Director

Enclosures

See p. 19.

# Comments From the Resolution Trust Corporation



**RESOLUTION TRUST CORPORATION**

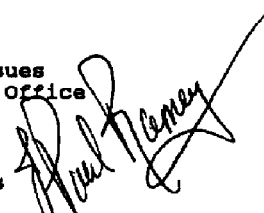
Resolving The Crisis  
Restoring The Confidence

September 23, 1993

MEMORANDUM TO: Gaston L. Gianni, Jr.  
Associate Director,  
Federal Management Issues  
U. S. General Accounting Office

FROM: J. Paul Ramey  
Vice President  
Department of Resolutions

SUBJECT: **GAO Report B-254636, MINORITY-OWNED FINANCIAL INSTITUTIONS, Status of Federal Efforts to Preserve Minority Ownership**



We have reviewed subject report, and appreciate the opportunity to respond and take actions which will help satisfy the issues raised by the report.

We are pleased that the results illustrated in your report indicate a satisfactory effort on our part to preserve and protect the minority ownership of the banking institutions offered for sale by the RTC. We are concerned, however, that some minority sectors feel frustrated and unable to take advantage of opportunities offered. While we have continuously attempted to respond to our overall market in offering transactions in the forms most desired, we do believe we can always do more to get our message to the minority community.

To that end, and in agreement with your recommendation on page twenty-nine of this report, we have already constructed a survey, draft copy attached, to be mailed to all minority owned firms, investors and consultants registered with us, and all other known minority owned financial institutions. This survey was designed to extract the frustrations and roadblocks (either real or perceived) experienced or anticipated by minority groups in dealing with the RTC. Pending legislation does contain certain minority preference provisions. Therefore, we will not mail the survey at this time. That is, we feel obliged to wait until the legislation is finalized to determine what, if any, adjustments need to be made. The results of this survey will be reviewed and, to the extent possible, RTC procedures will be adjusted to address those frustrations.

801 17th Street, N.W. Washington, D.C. 20434

See p. 19.

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**Appendix VI  
Comments From the Resolution Trust  
Corporation**

cc. Mr. Roelle  
Mr. Held  
Mr. Hoch  
Ms. Lorentzen  
Ms. Conquest (GAO)

Appendix VI  
Comments From the Resolution Trust  
Corporation

**DRAFT**

1. In an effort to reach as many potential bidders as possible, the RTC announces thrifts being placed for sale by running one-day ads in *The Wall Street Journal* and the *American Banker* and by direct mail to members of the National Marketing List (NML). The direct mail announcements are sent to NML members that either expressed interest in a specific institution being marketed or in the state where one or more of the thrifts is located. Please indicate whether you find that these efforts adequately meet your needs and, if not, what other publications or methods could bolster this effort.

2. Please check all of the following that apply to your organization:

- We have attended one or more bid conferences for thrifts being sold by RTC.
- We have conducted due diligence at an RTC thrift.
- We have placed a bid on an RTC thrift.
- We have acquired a thrift or branch or branch cluster from RTC.

If you have not participated in any or some of the above activities, please indicate on an attachment why you have not done so.

3. In order to open the process to potential bidders of all sizes, the RTC offers large thrifts by whole units and by individual branches and/or branch groupings. (The RTC defines large thrifts as those that held \$500 million or more in deposits when placed in conservatorship.) Moreover, whenever a larger thrift is not available on an individual branch basis, the RTC generally permits consortium bids.

- a. Were you aware that large thrifts were offered both as a whole and in smaller branch groupings?
- b. Have you ever bid on an individual branch or branch group unit of a larger thrift?
- c. Were you aware that the RTC permitted consortium bids?
- d. Have you ever participated in a consortium bid for an RTC thrift?

4. The RTC has adopted special minority preference procedures for use in the sale of thrifts that were previously minority owned. (Enclosed is a copy of these procedures and guidelines.)

- a. Were you aware of these minority preference procedures used in the sale of previously minority owned thrifts?



Appendix VI  
Comments From the Resolution Trust  
Corporation

**DRAFT**

- b. Have you ever bid on a minority thrift under these guidelines? If so, was your bid a winning bid?
  - c. Please attach comments/suggestions you have about these procedures.
5. The Congress also authorized the RTC to provide interim capital assistance to qualified minority investors acquiring thrifts from the RTC.
- a. Have you placed a bid for a minority thrift based on interim capital assistance? If so, was your bid a winning bid?
  - b. Given the restrictions placed by statute on the interim capital assistance program to ensure that the assistance is short term and only available to minority investors, what changes would you like made to the existing procedures?
6. The RTC Refinancing, Restructuring and Improvement Act of 1991 authorized the RTC to accept bids based on interim capital assistance from qualified minority bidders on thrifts or thrift branches that were previously majority owned. The law requires that the RTC can only consider interim capital assistance based bids from minority investors if there is no cost effective bid without such assistance from a qualified bidder. Moreover, the interim capital assistance bid must be lower cost to the RTC than a direct payoff of deposits.
- a. Have you ever placed a bid based on interim capital assistance for a previously majority owned thrift or branch(es)? If so, was your bid a winning bid?
  - b. Given the legal constraints, how could this interim capital procedure be improved?
7. Please check any of the following factors that limit your organization's participation in the RTC bidding process.
- The institution or branch clusters being offered for sale were too big.
  - The RTC did not offer sufficient assets with the institution.
  - The RTC did not provide enough information about the institution.
  - The amount of regulatory capital required was too great.
  - No institutions or branches have been offered in the geographic area of interest to us.

Appendix VI  
Comments From the Resolution Trust  
Corporation

**DRAFT**

- \_\_\_\_\_ The sales process takes too much time from the initial marketing of a thrift to the final sale.
- \_\_\_\_\_ The sales process does not allow ample time from the initial marketing of a thrift to the final sale.
- \_\_\_\_\_ Obtaining a charter in order to accomplish the transaction is too difficult.
- \_\_\_\_\_ Other (please explain)

8. Please elaborate on the concerns noted in the above question as well as other factors that have impeded or precluded your organization's participation in the RTC's thrift sales process.

9. Has the chartering process impeded or precluded your organization's participation in the RTC's thrift sales process? Please elaborate on problems you have encountered and offer suggestions on how the process might be improved.

10. The RTC is interested in attracting more minority investors to participate in all the remaining thrift sales. Adhering to the statutory mandate that RTC sell thrifts through a fair, competitive process and that RTC select the most cost-effective resolution, how could the RTC process be changed so that it both attracts more minority bidders into the process and facilitates more winning bids from minority bidders?

Thank you for completing this survey. If you would care to identify your organization, please answer the remaining questions. If you prefer to remain anonymous, no further responses are necessary.

\_\_\_\_\_  
(Name of organization)

\_\_\_\_\_  
(RTC account number)

\_\_\_\_\_  
(City, State)

\_\_\_\_\_  
(Name of contact person)

\_\_\_\_\_  
(Telephone number)

Please attach the names of the institutions you have bid on in the past and indicate those that were winning bids.

# Major Contributors to This Report

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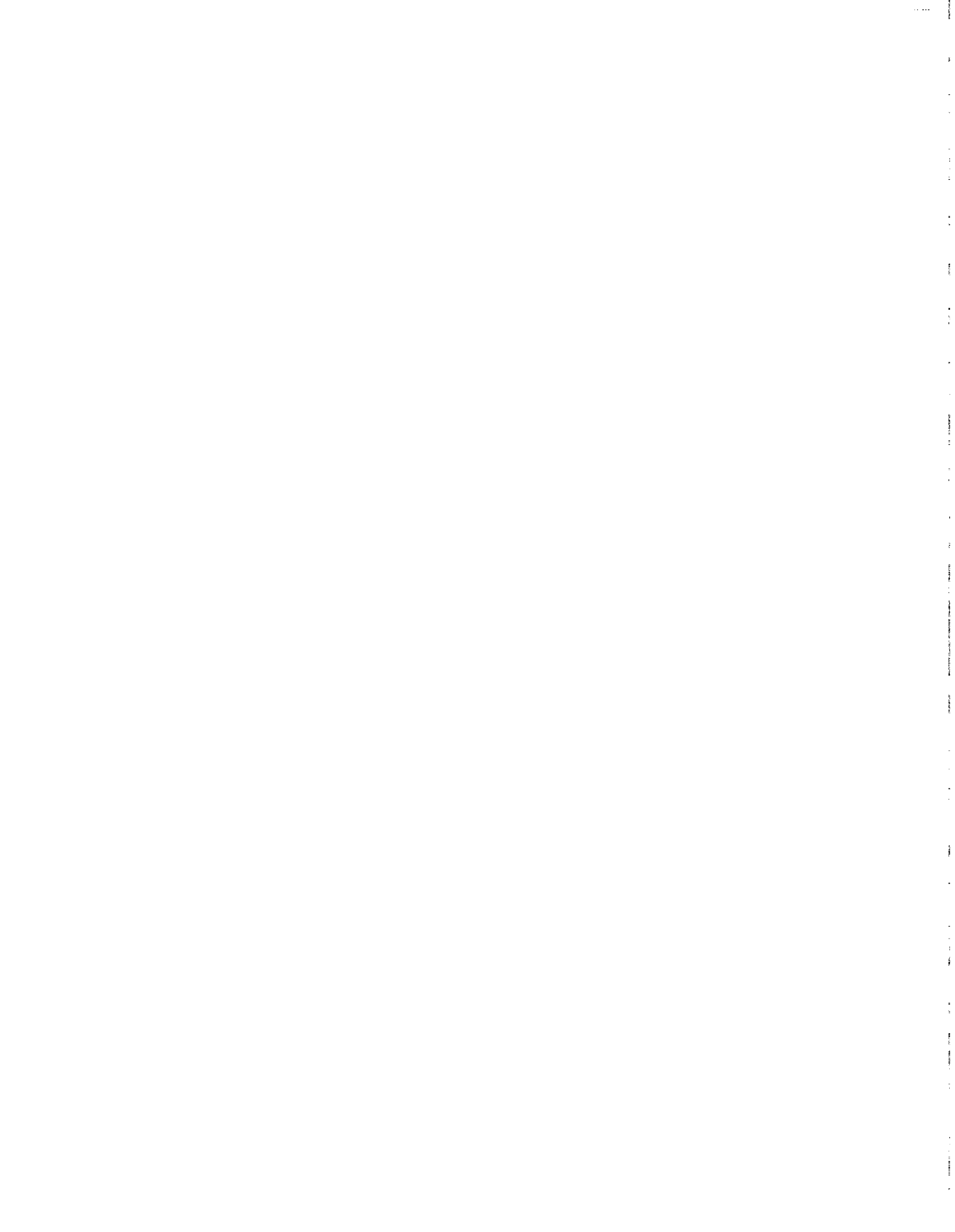
## General Government Division, Washington, D.C.

Earl F. Walter, Assistant Director, Government Business  
Operations Issues  
Tammy R. Conquest, Evaluator-in-Charge  
Arnel P. Cortez, Evaluator  
Katherine M. Wheeler, Publishing Advisor  
Kenneth John, Senior Social Science Analyst  
Lessie Burke, Writer-Editor

---

## Office of the General Counsel

Susan Linder, Senior Attorney



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General Accounting Office  
Washington, D.C. 20548**

**Official Business  
Penalty for Private Use \$300**

**First-Class Mail  
Postage & Fees Paid  
GAO  
Permit No. G100**

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