



Highlights of [GAO-08-233T](#), a testimony before the Subcommittee on Oversight and Investigations, Committee on Financial Services, U.S. House of Representatives

Why GAO Did This Study

Minority banks can play an important role in serving the financial needs of historically underserved communities and growing populations of minorities. For this reason, the Financial Institutions, Reform, Recovery, and Enforcement Act of 1989 (FIRREA) established goals that the Federal Deposit Insurance Corporation (FDIC) and the Office of Thrift Supervision (OTS) must work toward to preserve and promote such institutions (support efforts). While not required to do so by FIRREA, the Board of Governors of the Federal Reserve System (Federal Reserve) and Office of the Comptroller of the Currency (OCC) have established some minority bank support efforts.

This testimony, based on a 2006 GAO report, discusses the profitability of minority banks, regulators' support and assessment efforts, and the views of minority banks on the regulators' efforts as identified through responses from a survey of 149 such institutions.

What GAO Recommends

In the 2006 report, GAO recommended that the regulators review the effectiveness of their support efforts by such means as (1) surveying minority banks and/or (2) establishing performance measures.

Since the report, all of the regulators have reported taking steps to survey or obtain information from minority banks on their support efforts. However, it is too soon to evaluate the effectiveness of these assessment efforts.

To view the full product, including the scope and methodology, click on [GAO-08-233T](#). For more information, contact George Scott at (202) 512-7215 or scottg@gao.gov.

MINORITY BANKS

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

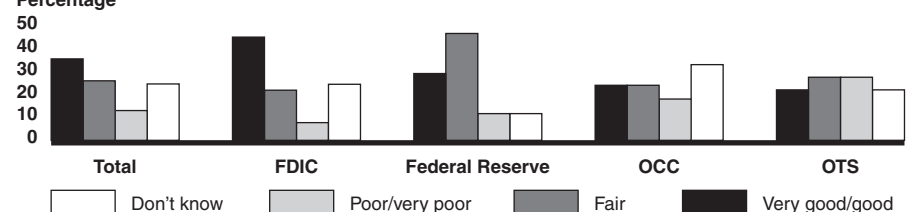
What GAO Found

GAO reported in 2006 that the profitability of most large minority banks (assets greater than \$100 million) was nearly equal to that of their peers (similarly sized banks) in 2005 and earlier years, according to FDIC data. However, many small minority banks and African-American banks of all sizes were less profitable than their peers. GAO's analysis and other studies identified some possible explanations for these differences, including relatively higher loan loss reserves and operating expenses and competition from larger banks.

Bank regulators had adopted differing approaches to supporting minority banks, but no agency had regularly and comprehensively assessed the effectiveness of its efforts. FDIC—which supervises over half of all minority banks—had the most comprehensive support efforts and leads interagency efforts. OTS focused on providing technical assistance to minority banks. While not required to do so by FIRREA, OCC and the Federal Reserve had taken some steps to support minority banks. Although FDIC had recently sought to assess the effectiveness of its support efforts through various methods, none of the regulators comprehensively surveyed minority banks or had developed performance measures. Consequently, the regulators were not well positioned to assess their support efforts.

GAO's survey of minority banks identified potential limitations in the regulators' support efforts that would likely be of significance to agency managers and warrant follow-up analysis. Only about one-third of survey respondents rated their regulators' efforts for minority banks as very good or good, while 26 percent rated the efforts as fair, 13 percent as poor or very poor, and 25 percent responded "don't know" (see fig.). Banks regulated by FDIC were more positive about their agency's efforts than banks regulated by other agencies. However, only about half of the FDIC-regulated banks and about a quarter of the banks regulated by other agencies rated their agency's efforts as very good or good. Although regulators may have emphasized the provision of technical assistance to minority banks, less than 30 percent of such institutions have used such agency services within the last 3 years and therefore may be missing opportunities to address problems that limit their operations or financial performance.

Minority Banks' Ratings of Support Efforts, by Regulator
Percentage



Source: GAO.