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# Preserving Minority Depository Institutions

2013

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM





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2013

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# Preface: Implementing the Dodd-Frank Act

The Board of Governors of the Federal Reserve System (Board) is responsible for implementing numerous provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act). The Dodd-Frank Act requires, among other things, that the Board produce reports to the Congress on a number of topics.

The Board maintains a Regulatory Reform website, which provides an overview of regulatory reform efforts implementing the Dodd-Frank Act and a list

of the implementation initiatives completed by the Board as well as the most significant initiatives the Board expects to address in the future.<sup>1</sup>

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<sup>1</sup> Board of Governors of the Federal Reserve System, “About Regulatory Reform” [www.federalreserve.gov/newsevents/reform\\_about.htm](http://www.federalreserve.gov/newsevents/reform_about.htm); “Implementing the Dodd-Frank Act: The Federal Reserve Board’s Role,” [www.federalreserve.gov/newsevents/reform\\_milestones.htm](http://www.federalreserve.gov/newsevents/reform_milestones.htm).



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# Abbreviations

CDFI	Community Development Financial Institution	LMI	Low- and moderate-income
FDIC	Federal Deposit Insurance Corporation	MDI	Minority depository institution
FIRREA	Financial Institutions Reform, Recovery and Enforcement Act of 1989	NBA	National Bankers Association
FRB	Federal Reserve Bank	OCC	Office of the Comptroller of the Currency
		PFP	Partnership for Progress



# Executive Summary

The Board submits this report pursuant to section 367 of the Dodd-Frank Act. This section requires the Board to submit an annual report to the Congress detailing the actions taken to fulfill requirements outlined in section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989, as amended by the Dodd-Frank Act. In addition to the annual reporting requirement, FIRREA section 308 requires the Federal Reserve System (System) to devote efforts towards preserving minority ownership of minority depository institutions (MDIs). Comments on the System's efforts to fulfill the requirements of FIRREA section 308 are included in the 2008 through 2012 annual reports of the Board to the Congress. However, this report is issued in separate form to align Board practice with that of the other agencies with section 367 responsibilities.

Throughout 2013, the System supervised 17 MDIs, which collectively represented 2.06 percent of the 825 community banks in the System's community banking organizations portfolio.

To support these institutions and to accomplish minority depository-related FIRREA goals, the System continues to dedicate resources to engage in outreach and technical assistance activities. Throughout 2013, staff from the Board as well as staff from each of the 12 Federal Reserve Banks (FRBs) engaged in activities to support MDIs. Highlights of those activities include

- issuance of Supervision and Regulation letter 13-15, "Federal Reserve Resources for Minority Depository Institutions," to reaffirm the System's commitment to support MDIs;<sup>2</sup>
- collaboration with the Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC) in holding a biannual interagency conference to help promote and preserve MDIs;
- participation in the 86th National Bankers Association (NBA)<sup>3</sup> convention, with senior Board officials attending to explain the impact of Basel III capital rules<sup>4</sup> on community banking organizations;
- technical assistance to MDIs on a wide variety of topics, including topics focused on improving regulatory ratings, navigating the regulatory applications process, and refining capital-planning practices; and
- maintenance of a public website, which offers a full menu of banking resources and regulatory guidance relevant to MDIs.<sup>5</sup>

<sup>2</sup> Board of Governors of the Federal Reserve System, Division of Banking Supervision and Regulation, Division of Consumer

and Community Affairs (2013), "Federal Reserve Resources for Minority Depository Institutions," Supervision and Regulation Letter SR 13-15/CA 13-11 (August 5), [www.federalreserve.gov/bankinforeg/srletters/sr1315.pdf](http://www.federalreserve.gov/bankinforeg/srletters/sr1315.pdf).

<sup>3</sup> The NBA is a trade organization representing the interests of minority-owned or minority-controlled financial institutions.

<sup>4</sup> Board of Governors of the Federal Reserve System (2013) "Final Rule on Enhanced Regulatory Capital Standards—Implications for Community Banking Organizations," community bank guide, July 2, [www.federalreserve.gov/newsevents/press/bcreg/commbankguide20130702.pdf](http://www.federalreserve.gov/newsevents/press/bcreg/commbankguide20130702.pdf).

<sup>5</sup> For details on the Partnership for Progress program and the range of available resources, refer to [www.fedpartnership.gov/](http://www.fedpartnership.gov/).



## Section 308 of FIRREA

The System's Partnership for Progress (PFP) program was established in 2008, even before mandated by law, because the System recognized the importance of MDIs and wanted to take steps to preserve and promote these institutions. The System supports an inclusive financial system and understands the challenges inherent in providing access to credit and other financial services in traditionally underserved areas. As such, the System remains committed to identifying additional opportunities to support the preservation of these organizations. Further, section 308 of FIRREA, as amended by the Dodd-Frank Act, requires:

- (a) **CONSULTATION ON METHODS.**—The Secretary of the Treasury shall consult with the Chairman of the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Chairman of the National Credit Union Administration, and the Chairperson of the Board of Directors of the Federal Deposit Insurance Corporation on methods for best achieving the following
- (1) Preserving the present number of minority depository institutions.
  - (2) Preserving their minority character in cases involving mergers or acquisition of a minority depository institution by using general preference guidelines in the following order:
    - (A) Same type of minority depository institution in the same city.
    - (B) Same type of minority depository institution in the same State.
    - (C) Same type of minority depository institution nationwide.
    - (D) Any type of minority depository institution in the same city.
    - (E) Any type of minority depository institution in the same State.
    - (F) Any type of minority depository institution nationwide.
    - (G) Any other bidders.
  - (3) Providing technical assistance to prevent insolvency of institutions not now insolvent.
  - (4) Promoting and encouraging creation of new minority depository institutions.
  - (5) Providing for training, technical assistance, and educational programs.
- (b) **DEFINITIONS.**—For purposes of this section—
- (1) **MINORITY FINANCIAL INSTITUTION.**—The term “minority depository institution” means any depository institution that—
    - (A) if a privately owned institution, 51 percent is owned by one or more socially and economically disadvantaged individuals;
    - (B) if publicly owned, 51 percent of the stock is owned by one or more socially and economically disadvantaged individuals; and
    - (C) in the case of a mutual institution where the majority of the Board of Directors, account holders, and the community which it services is predominantly minority.
  - (2) **MINORITY.**—The term “minority” means any black American, Native American, Hispanic American, or Asian American.<sup>6</sup>

In addition, section 367 of the Dodd-Frank Act amended FIRREA to require the supervisory agencies to submit an annual report to the Congress containing a description of actions taken to carry out FIRREA section 308.

<sup>6</sup> Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Pub. L. No. 101-73, 103 Stat. 183 (1989)



# State-Member MDIs

The System retains primary supervisory responsibility for 17 state-member<sup>7</sup> MDIs (refer to [appendix A](#)), which are predominately community banks,<sup>8</sup> having total assets of \$10 billion or less (see [table 1](#)).

Accordingly, the System's community banking organizations program, which is responsible for the risk-focused supervision of state-member banks with less than \$10 billion in total assets, maintains oversight responsibility for the System's portfolio of MDIs.

<sup>7</sup> The term "state-member" refers to state-chartered banks that are members of the Federal Reserve System.

<sup>8</sup> For supervisory purposes, community banks are generally defined as those with less than \$10 billion in total consolidated assets.

**Table 1. Asset distribution—state-member MDIs**

Asset size	Number of banks	Percentage of total
\$250 million or less	9	53%
\$251 million to \$500 million	3	18%
Over \$500 million to \$1 billion	1	5%
Over \$1 billion to \$10 billion	2	12%
Greater than \$10 billion	2	12%
<b>Total</b>	<b>17</b>	<b>100%</b>

Source: Consolidated Reports of Condition, as of September 30, 2013

## Geographic Dispersion

At year-end 2013, state-member MDIs were located in seven of the 12 Reserve Bank Districts,<sup>9</sup> with assets concentrated in the New York and San Francisco Districts (see [table 2](#)). State-member MDIs in these two Districts accounted for 97 percent of the MDI portfolio.

<sup>9</sup> Reserve Banks for the 12 Districts are headquartered in Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco.

**Table 2. State-member MDI distribution**

Reserve Bank District	Number of MDIs	Total assets (000s)	Percentage of total assets
Atlanta	1	\$ 391,647	0.60%
Chicago	2	\$ 322,143	0.49%
Dallas	1	\$ 192,160	0.29%
Kansas City	5	\$ 458,099	0.70%
New York	2	\$35,491,658	54.27%
Philadelphia	1	\$ 83,951	0.13%
San Francisco	5	\$28,455,140	43.51%
<b>Total</b>	<b>17</b>	<b>\$65,394,798</b>	<b>100.00%</b>

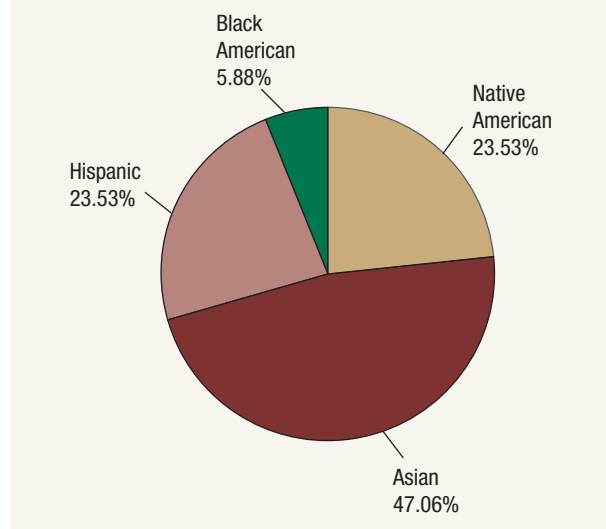
Source: Consolidated Reports of Condition, as of September 30, 2013

## Minority Ownership Type

The System's MDI portfolio includes banks representing all minority ownership<sup>10</sup> categories as defined by FIRREA. Consistent with national demographics for all MDIs, as of year-end 2013, most state-member MDIs were under Asian American ownership (figure 1).

<sup>10</sup> Section 308 of FIRREA, as amended by the Dodd-Frank Act, Title III, § 367(4), 12 U.S.C. § 1463 (2001 & Supp. 2013) defines the term "minority" as any black American, Native American, Hispanic American, or Asian American. In addition to institutions that meet the ownership test, the Board will consider an institution to be an MDI if a majority of its board of directors is minority and the community that the institution serves is predominantly minority.

Figure 1. State-member MDIs by minority type





# Partnership for Progress Program

The System supports MDIs primarily through its PFP program. This program is a national outreach effort to help MDIs confront unique business model challenges, cultivate safe banking practices, and compete more effectively in the marketplace. Through this program, the System strives to provide MDIs with resources supportive of sound banking operations.

Maryann Hunter, Deputy Director of the Board's Division of Banking Supervision and Regulation, serves as national coordinator of the program, while district coordinators from each of the FRBs carry out the program's objectives. Staff from both the Board's Division of Banking Supervision and Regulation and the Division of Consumer and Community Affairs has responsibility for program implementation. Further, an Executive Oversight Committee, comprised of senior officials from both the Board and the Reserve Bank of Philadelphia, meets regularly to discuss progress toward program objectives set for each calendar year.

## Preserving the Character and Number of MDIs

To preserve the character and number of state-member MDIs, staff from the Board's applications function coordinate with the FDIC to help identify healthy minority banking organizations capable of acquiring or merging with state-member MDIs that are in troubled condition.<sup>11</sup> To this end, PFP staff provides the FDIC with a quarterly list of all MDIs under System supervision. In addition, Board staff in the applications function continues to offer a pre-

<sup>11</sup> A "troubled condition" for a state-member bank is defined by 12 CFR 225.71 (Regulation Y) as an institution that (i) has a composite rating of 4 or 5; (ii) is subject to a cease-and-desist order or formal written agreement that requires action to improve the institution's financial condition, unless otherwise informed in writing by the Board; or (iii) is informed in writing by the Board that it is in a troubled condition.

filing option to MDIs for banking applications to provide critical feedback on potential issues to help avoid processing delays. Finally, whenever the System receives a proposal involving an MDI or an MDI's holding company, every effort is made to ensure that the institution is preserved and that its future prospects are enhanced. During 2013, the number of MDIs under System supervision remained unchanged with that of the prior year.

## Promoting the Creation of MDIs

The System strives to promote the creation of new MDIs by providing guidance about the regulatory applications process to individuals interested in establishing new minority institutions. Further, the System strives to promote the creation of MDIs by posting articles to the Partnership for Progress website, some of which are authored by third parties, that advocate minority bank ownership, inform MDIs of advantageous federally sponsored programs, and promote community development. These web posts also provide guidance about financial institution development, including information regarding the process of starting a bank, managing a bank through the de novo period, and growing shareholder value while ensuring safe and sound operations. Further, district coordinators occasionally field calls from the public asking for guidance on the new bank applications process.

## Providing Technical Assistance to Prevent Insolvency

District coordinators meet regularly with management of MDIs, especially those in troubled condition, to explain guidance, discuss challenges, and respond to management concerns. Because asset quality remained a primary weakness contributing to the troubled condition or less-than-satisfactory condition of some of these institutions throughout 2013,

district coordinators provided several MDIs with targeted training on strategies to improve loan portfolio weaknesses.

## Training, Technical Assistance, and Educational Programs

The System continues to use a variety of tools to support MDIs. The primary tools used by the System to provide training and technical assistance are described below.

### Partnership for Progress Website

As previously mentioned, one of the primary vehicles for distributing educational materials relevant to MDIs continues to be the System's PFP website. This website promotes the creation of MDIs by

- providing information about new regulations and their impact on community banking organizations;
- advertising regulatory and agency events relevant to MDIs; and
- furnishing articles focused on market conditions and economic data related to areas typically served by MDIs.

To ensure continued relevance of posted material, PFP representatives install regular updates to the site.

### Workshops

Throughout 2013, district coordinators invited officials from MDIs to participate in FRB conference calls and seminars focused on a wide variety of banking topics. Most of these topics related to newly issued regulations, asset quality management, and capital planning and maintenance.

### Publications

The System continues to support enhanced communications with community banks, including MDIs. To this end, the System continues to disseminate important information about regulatory matters through a number of publications, most of which are accessible through links on the PFP website. Of particular use to state-member MDIs is the System's

*Community Banking Connections*® publication.<sup>12</sup> This publication serves to

- clarify key supervisory guidance;
- highlight new regulations;
- provide perspectives from bank examiners and System staff; and
- address challenges and concerns facing community banks and provide resources to assist them.

During 2013, the publication offered articles on a variety of timely topics, including the allowance for loan and lease losses, cybersecurity, and capital planning.

Another publication offering information and guidance useful to MDIs is the System's *FedLinks*™ publication,<sup>13</sup> which serves to

- discuss supervisory topics that are important to community banks;
- highlight the purpose of related supervisory policy and guidance, if applicable;
- provide examples and illustrations to demonstrate the practical application of covered topics; and
- provide integrated summaries that describe how examiners typically will address the covered topic.

During 2013, this publication offered articles on several topics applicable to MDIs, including supervisory expectations for appraisal and evaluation programs, supervisory expectations for internal control functions, and supervisory expectations for the allowance for loan and lease losses.

### Research on Low- and Moderate-Income Communities

Throughout 2013, staff from the FRBs published a number of articles and surveys that both evaluated conditions in low- and moderate-income (LMI) communities and described efforts to support them.

<sup>12</sup> *Community Banking Connections* is a registered trademark of the Federal Reserve Bank of Philadelphia, [www.communitybankingconnections.org/](http://www.communitybankingconnections.org/).

<sup>13</sup> *FedLinks*, a part of *Community Banking Connections*, highlights key elements of supervisory topics to improve clarity and understanding, [www.communitybankingconnections.org/fedlinks.cfm](http://www.communitybankingconnections.org/fedlinks.cfm).

Because the success of MDIs is often dependent on the health of the communities they serve, these articles are particularly relevant to the MDI business model. These articles intend to provide service providers, policymakers, and others with a gauge to assess the needs of these communities and to evaluate changes in the economic conditions of these populations.

The following list highlights some of the articles and surveys published during 2013:

- *Low- and Moderate- Income Surveys*:<sup>14</sup> Several FRBs, including FRB Kansas City, which retains a large number of state-member MDIs, publish quarterly results from surveys designed to measure the economic conditions of LMI populations and the condition of organizations that serve them.
- *Housing Market Recovery in the 12th District: Implications for Low- and Moderate-Income Communities*:<sup>15</sup> This publication focuses on the disproportionate impact of the Great Recession on LMI communities and provides an overview of the housing market recovery and investor activity in the San Francisco FRB District, another district with a large number of state-member MDIs.
- *CDFIs: What's in a Name?*:<sup>16</sup> The Philadelphia FRB published this article to explain the importance of Community Development Financial Institutions (CDFIs) to credit markets and lenders, fiscal policymakers, state and municipal officials, and, most importantly, the low-income and low-wealth individuals and communities that CDFIs serve. This article is relevant to MDIs, as nearly half of all MDIs are also certified as CDFIs.

### Collaboration with Trade Groups

Throughout the year, district coordinators worked with numerous trade groups to foster mutually beneficial partnerships between MDIs and organizations

<sup>14</sup> For an example of an LMI survey, please refer to the Federal Reserve Bank of Kansas City website at [www.kansascityfed.org/research/indicatorsdata/lmi/index.cfm](http://www.kansascityfed.org/research/indicatorsdata/lmi/index.cfm).

<sup>15</sup> Laura Choi, (2013), "Housing Market Recovery in the 12th District: Implications for Low- and Moderate-Income Communities," Federal Reserve Bank of San Francisco, *Community Development Research Brief* (August), [www.frbsf.org/community-development/publications/community-development-research-briefs/2013/august/housing-market-recovery-impact-low-moderate-income/](http://www.frbsf.org/community-development/publications/community-development-research-briefs/2013/august/housing-market-recovery-impact-low-moderate-income/).

<sup>16</sup> Mark Pinsky (2013), "CDFIs: What's in a Name?," Federal Reserve Bank of Philadelphia, *Cascade*, vol. 83 (fall), [www.philadelphiafed.org/community-development/publications/cascade/83/01\\_cdfis-whats-in-a-name.cfm](http://www.philadelphiafed.org/community-development/publications/cascade/83/01_cdfis-whats-in-a-name.cfm).

seeking to promote growth and development of minority communities. Throughout 2013, PFP staff invited MDI officials to participate in conferences, conference calls, and workshops hosted by a number of interested groups, including the National Urban League, the Minority Business Development Agency, the Independent Community Bankers of America Minority Bankers Council, the Small Business Administration, and the NBA. Further, Board staff invited the president of the NBA to the PFP's annual district coordinators meeting, held in January of 2013, to express regulatory concerns on behalf of MDIs to senior Board officials.

### Collaboration with Other Agencies

The System's consumer and community affairs function continues to collaborate with other banking agencies to identify opportunities to create incentives for financial institutions to engage in community development activities. Further, throughout 2013, System representatives, along with senior officials from the FDIC and the OCC, attended interagency meetings to identify additional opportunities to collaborate on MDI outreach efforts.

As an example of these collaborative efforts, the System continues to participate in the biannual interagency minority depository conference. During the 2013 conference, Board Governor Sarah Bloom Raskin provided opening remarks, and senior officials from the Board participated in roundtable discussions with MDI representatives.

### Examiner Education

District coordinators participate in quarterly conference calls and attend annual meetings to discuss current MDI conditions and concerns. To keep the district coordinators well informed, during these meetings, System staff and representatives from trade associations lead presentations on topics related to MDI preservation. During these meetings, PFP representatives also

- discuss with district coordinators their progress towards meeting annual program objectives;
- provide clarification on annual program objectives;
- solicit input on MDI challenges observed in specific regions;
- consider suggestions from district coordinators on ways to improve program offerings; and

- discuss upcoming System or trade association events, workshops, or seminars that may benefit MDIs.

Further, during 2013, Board staff issued internal guidance to examiners to explain their responsibilities under the PFP program.

## Conclusion

The System supports an inclusive financial system and understands the challenges inherent in providing access to credit and services in traditionally under-

served areas. As such, the System remains committed to identifying additional opportunities to support the preservation of MDIs.



# Appendix A

**Table A.1. State-member MDIs**

ID RSSD <sup>1</sup>	Institution name	State	Reserve Bank District	Assets (\$000)
680130	Citizens Trust Bank	GA	Atlanta	391,647
2360904	Pacific Global Bank	IL	Chicago	156,211
365745	Pinnacle Bank	IA	Chicago	165,932
2942823	United Bank of El Paso Del Norte	TX	Dallas	192,160
146056	AllNations Bank	OK	Kansas City	45,313
815754	Bank of Cherokee County	OK	Kansas City	103,247
64552	Bank2	OK	Kansas City	108,802
1972298	My Bank	NM	Kansas City	156,681
2380470	Premier Bank	CO	Kansas City	44,056
940311	Banco Popular de Puerto Rico	PR	New York	26,680,000
2736291	Banco Popular North America	NY	New York	8,811,658
2785477	Asian Bank	PA	Philadelphia	83,951
777366	Bank of the Orient	CA	San Francisco	466,135
3337097	Commonwealth Business Bank	CA	San Francisco	512,194
197478	East West Bank	CA	San Francisco	24,471,822
657365	Hanmi Bank	CA	San Francisco	2,839,470
3143805	Pacific Commerce Bank	CA	San Francisco	165,519
<b>Number of institutions: 17</b>			<b>Total Assets</b>	<b>65,394,798</b>

<sup>1</sup> An RSSD is a unique identifying number assigned by the System for all financial institutions, main offices, and branches.

Source: Consolidated Reports of Condition, as of September 30, 2013

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