



Annual Report on Preserving Minority Depository Institutions

December 2015

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM



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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 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.¹

¹ Board of Governors of the Federal Reserve System, “About Regulatory Reform” 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.

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Abbreviations

FDIC	Federal Deposit Insurance Corporation	LMI	Low- and moderate-income
FIRREA	Financial Institutions Reform, Recovery and Enforcement Act of 1989	MDI	Minority depository institution
FRB	Federal Reserve Bank	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 toward 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, beginning with the 2013 report the Federal Reserve issues the annual report in separate form to align Board practice with that of the other agencies with section 367 responsibilities.

Throughout 2014, the System supervised 19 MDIs, which collectively represented 2.28 percent of the 833 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 dedi-

cate resources to engage in outreach and technical assistance activities. Throughout 2014, 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 included

- hosting a Rapid Response training program for examiners for FRB and state regulatory examiners on minority depository institution supervisory guidance, which focused on the Federal Reserve System's Partnership for Progress (PFP) program and on Dodd-Frank requirements such as preserving MDIs, the state of MDIs, challenges facing MDIs, and supervisory tools;
- providing 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
- maintaining a public website, which offers a full menu of banking resources—including regulatory guidance—relevant to MDIs.²

² For details on the Partnership for Progress program and the range of available resources, see 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.³

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.

³ 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 19 state-member⁴ MDIs, which are predominantly community banks,⁵ having total assets of \$10 billion or less (see [table 1](#)). (For more details on the 19 state-member MDIs discussed in this report as well as a comparison of the number, assets, and demographics of state-member MDIs from 2011–14, see [appendix A](#).)

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.

Geographic Dispersion

At year-end 2014, state-member MDIs were located in 7 of the 12 Reserve Bank Districts,⁶ 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.

⁴ The term “state-member” refers to state-chartered banks that are members of the Federal Reserve System.

⁵ For supervisory purposes, community banks are generally defined as those with less than \$10 billion in total consolidated assets.

⁶ 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 1. Asset distribution of state-member MDIs

Asset size	Number of banks	Percentage of total
\$250 million or less	10	53%
\$251 million to \$500 million	4	21%
Over \$500 million to \$1 billion	1	5%
Over \$1 billion to \$10 billion	2	11%
Greater than \$10 billion	2	11%
Total	19	100%

Source: Consolidated Reports of Condition December 31, 2014.

Table 2. State-member MDI distribution

Reserve Bank District	Number of MDIs	Total assets (\$000s)	Percentage of total assets
Atlanta	1	395,238	0.57%
Chicago	2	344,437	0.50%
Dallas	1	206,382	0.30%
Kansas City	6	744,927	1.08%
New York	2	32,591,571	47.18%
Philadelphia	1	108,564	0.16%
San Francisco	6	34,690,426	50.22%
Total	19	69,081,545	100.00%

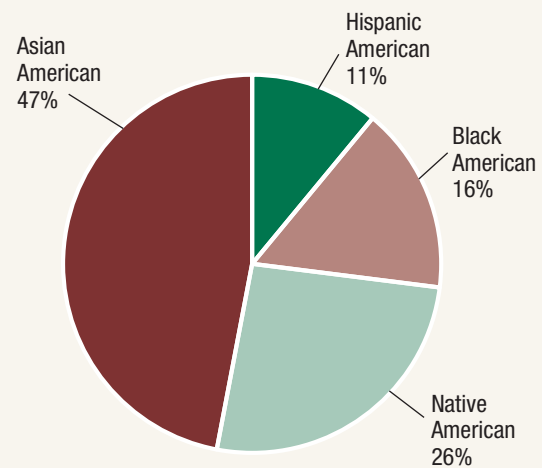
Source: Consolidated Reports of Condition December 31, 2014.

Minority Ownership Type

The System's MDI portfolio includes banks representing all minority ownership⁷ categories as defined by FIRREA. Consistent with national demographics for all MDIs, as of year-end 2014, most state-member MDIs were under Asian American ownership (figure 1).

⁷ Section 308 of FIRREA, as amended by the Dodd-Frank Act, title III, § 367(4), 12 USC § 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



Source: Federal Deposit Insurance Corporation, fourth quarter 2014 data, www.fdic.gov/regulations/resources/minority/mdi.html.

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 have responsibility for program implementation. Further, an Executive Oversight Committee, composed 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 Federal Deposit Insurance Corporation (FDIC) to help identify healthy minority banking organizations capable of acquiring or merging with state-member MDIs that are in troubled condition.⁸ To this end, PFP staff provide the FDIC with a quarterly list of all MDIs under System supervision. In addition, Board staff in the applications function continue to offer a pre-filing

⁸ 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.

option for banking applications that 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 2014, the number of MDIs under System supervision increased by two. One bank already designated an MDI changed charter and became a state member bank. The other bank, which was already a state member bank, applied for and was granted MDI designation.

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 (www.fedpartnership.gov) that advocate minority bank ownership, inform MDIs of advantageous federally sponsored programs, and promote community development. These web posts—some of which are authored by third parties—also provide guidance about financial institution development, including information about 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 2014, 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 regularly update the website.

Workshops

Throughout 2014, 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 capital maintenance.

Publications

The System continues to support enhanced communications with community banks, including MDIs. To this end, the System disseminates important information about regulatory matters through a variety 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.⁹ 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 2014, *Community Banking Connections* offered articles on a range of timely topics, including promoting an inclusive financial system, cybersecurity, loan and other real estate owned accounting guidance, recruiting and retaining community bank directors, and managing service provider relationships.

The System's *FedLinks*™ publication¹⁰ is another resource that offers information and guidance useful to MDIs. This publication 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 2014, *FedLinks* offered articles on several topics applicable to MDIs, including supervisory expectations for bank-owned life insurance, municipal lending, developing and maintaining an effective loan policy, and considerations when outsourcing an internal audit.

Research on Low- and Moderate-Income Communities

Throughout 2014, staff from the FRBs published articles and surveys that both evaluated conditions in low- and moderate-income (LMI) communities and

⁹ *Community Banking Connections* is a registered trademark of the Federal Reserve Bank of Philadelphia, www.communitybankingconnections.org/.

¹⁰ *FedLinks*, a part of *Community Banking Connections*, highlights key elements of supervisory topics to improve clarity and understanding, www.communitybankingconnections.org/fedlinks.cfm.

described efforts to support them, including by community banks. These publications are intended to equip 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. Indeed, because the success of MDIs is often dependent on the health of the communities they serve, the research shared through these articles and surveys is particularly relevant to the MDI business model. In addition, several of these publications noted the difficulty that minority and LMI populations have accessing credit from mainstream financial institutions. Given the mission and customers served by many MDIs, this research could help bolster the argument that MDIs are necessary and fill a credit gap left by larger, mainstream financial institutions.

Highlights of the research published during 2014 are listed below:

- **Low- and moderate-income surveys.**¹¹ Several FRBs, including FRB Kansas City, which has 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.
- **Small business credit surveys.** In 2014, both the Chicago and Dallas FRBs published surveys of small business owners, seeking to identify their resource needs and gaps. The Chicago survey was specific to black small business owners in Detroit and found that the most important resource need for businesses was human and financial capital.¹² The Dallas survey over-sampled minority-owned and women-owned business enterprises (MWBEs) and found that the starkest contrast between MWBEs and non-MWBEs lies in access to capital: more than double the percentage of MWBEs reported that this is the largest concern in their business growth compared with non-MWBEs (22 percent versus 10 percent).¹³

¹¹ For an example of an LMI survey, see the Federal Reserve Bank of Kansas City website at www.kansascityfed.org/research/indicatorsdata/lmi/index.cfm.

¹² Robin Newberger and Maude Toussaint-Commeau, "Resource Utilization among Black Small Business Owners in Detroit: Results from a Questionnaire," *ProfitWise News and Views* (Chicago: Federal Reserve Bank of Chicago, special edition 2014), www.chicagofed.org/publications/profitwise-news-and-views/2014/pnv-spced2014.

¹³ Emily Ryder Perlmeter, "Texas Small Business Needs Assessment Poll" (Dallas: Federal Reserve Bank of Dallas, May 2014), www.dallasfed.org/assets/documents/cd/poll/14poll.pdf?d=1&s=fedcommunities.

- **Community banks article.** In March 2014, Board economists released a paper that used data from 1992 through 2012 to examine the relationships between community bank profitability and various characteristics of the banks and the local markets in which they operate. The authors found that community bank profitability is strongly positively related to bank size, and that local economic conditions have significant effects on bank profitability.¹⁴

Collaboration with Trade Groups

Throughout the year, district coordinators worked with numerous trade groups to foster mutually beneficial partnerships between MDIs and organizations seeking to promote growth and development of minority communities. Throughout 2014, PFP staff invited MDI officials to participate in conferences, conference calls, and workshops hosted by several interested groups, including the National Urban League, the Minority Business Development Agency, the Independent Community Bankers of America Minority Bank Council, the Small Business Administration, the Community Development Bankers Association, and the National Bankers Association. Further, Board staff invited the president of the National Bankers Association to the PFP's annual district coordinators meeting, held in January 2014, 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 2014, System representatives, along with senior officials from the FDIC and the Office of the Comptroller of the Currency, attended interagency meetings to identify additional opportunities to collaborate on MDI outreach efforts.

As an example of these collaborative efforts, the System continued to prepare for the biennial interagency minority depository conference that took place in July 2015 in Washington, D.C.

¹⁴ Dean F. Amel and Robin A. Prager, "Community Bank Performance: How Important are Managers?" Finance and Economic Discussion Series 2014-26 (Washington: Board of Governors of the Federal Reserve System, March 18, 2014), www.federalreserve.gov/pubs/feds/2014/201426/201426pap.pdf.

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. PFP representatives also participate in the meetings by

- discussing with district coordinators their progress toward meeting annual program objectives;
- providing clarification on annual program objectives;
- soliciting input on MDI challenges observed in specific regions;

- considering suggestions from district coordinators on ways to improve program offerings; and
- discussing upcoming System or trade association events, workshops, or seminars that may benefit MDIs.

Further, during 2014, Board staff and staff from the second district hosted a Rapid Response video conference focusing on MDIs. The event focused on the PFP program, Dodd-Frank requirements—namely, preserving MDIs, general industry observations, the state of MDIs, challenges facing MDIs, and supervisory tools.

Conclusion

The Federal Reserve System supports an inclusive financial system and understands the challenges inherent in providing access to credit and services in traditionally underserved areas. As such, the System remains committed to identifying additional opportunities to support the preservation of MDIs.

For 2015, Board Staff are working to incorporate community development and utilize their resources to enhance PFP. The community development func-

tion within the Federal Reserve System—consisting of individual community development departments at each of the 12 Federal Reserve Banks as well as at the Board of Governors—promotes economic growth and financial stability for lower-income communities and individuals through a range of activities, including convening stakeholders, conducting and sharing research, and identifying emerging issues.

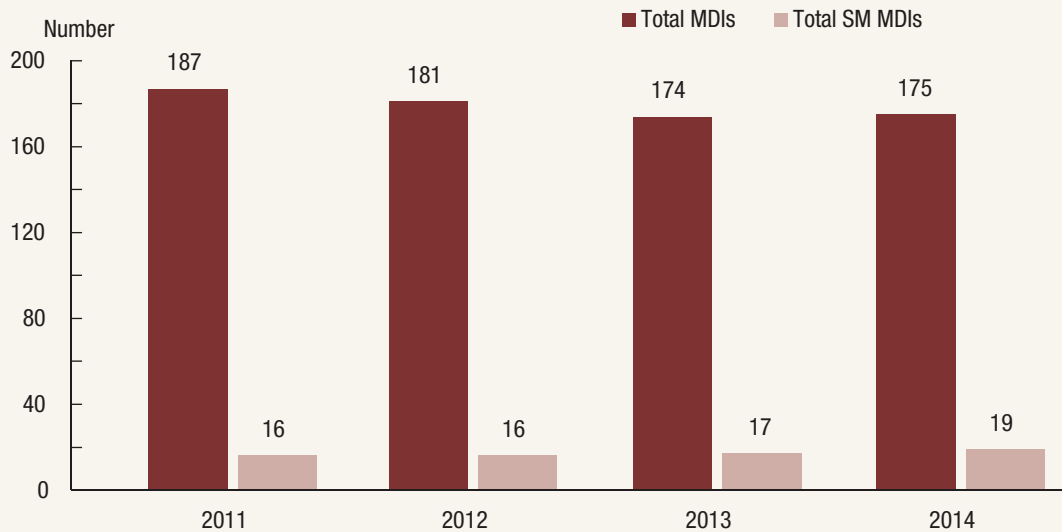
Appendix A

Table A.1. State-member minority depository institutions (MDIs)

ID RSSD ¹	Institution name	State	Reserve Bank District	Assets (\$000s)
680130	Citizens Trust Bank	GA	Atlanta	395,238
2360904	Pacific Global Bank	IL	Chicago	160,705
365745	Pinnacle Bank	IA	Chicago	183,732
2942823	United Bank of El Paso del Norte	TX	Dallas	206,382
2380470	Premier Bank	CO	Kansas City	37,366
146056	Allnations Bank	OK	Kansas City	49,552
815754	Bank of Cherokee County	OK	Kansas City	103,524
64552	Bank 2	OK	Kansas City	108,323
1972298	My Bank	NM	Kansas City	162,335
296456	Firstbank	OK	Kansas City	283,827
2736291	Banco Popular North America	NY	New York	5,503,571
940311	Banco Popular de Puerto Rico	PR	New York	27,088,000
2785477	Asian Bank	PA	Philadelphia	108,564
3143805	Pacific Commerce Bank	CA	San Francisco	217,780
2943389	Tomatobank	CA	San Francisco	444,077
777366	Bank of the Orient	CA	San Francisco	466,559
3337097	CWBB	CA	San Francisco	653,450
657365	Hanmi Bank	CA	San Francisco	4,230,522
197478	East West Bank	CA	San Francisco	28,678,038
Number of institutions: 19			Total assets	69,081,545

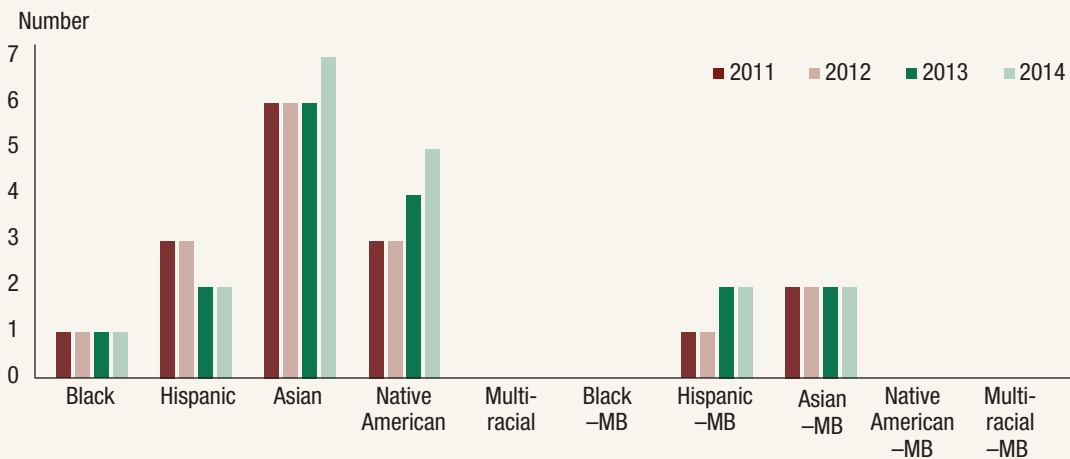
¹ An RSSD is a unique identifying number assigned by the System for all financial institutions, main offices, and branches.
Source: Consolidated Report of Condition, as of December 31, 2014.

Figure A.1. Proportion of MDIs that are state-member banks, 2011–14



Source: Federal Deposit Insurance Corporation, fourth quarter 2014 data, www.fdic.gov/regulations/resources/minority/mdi.html.

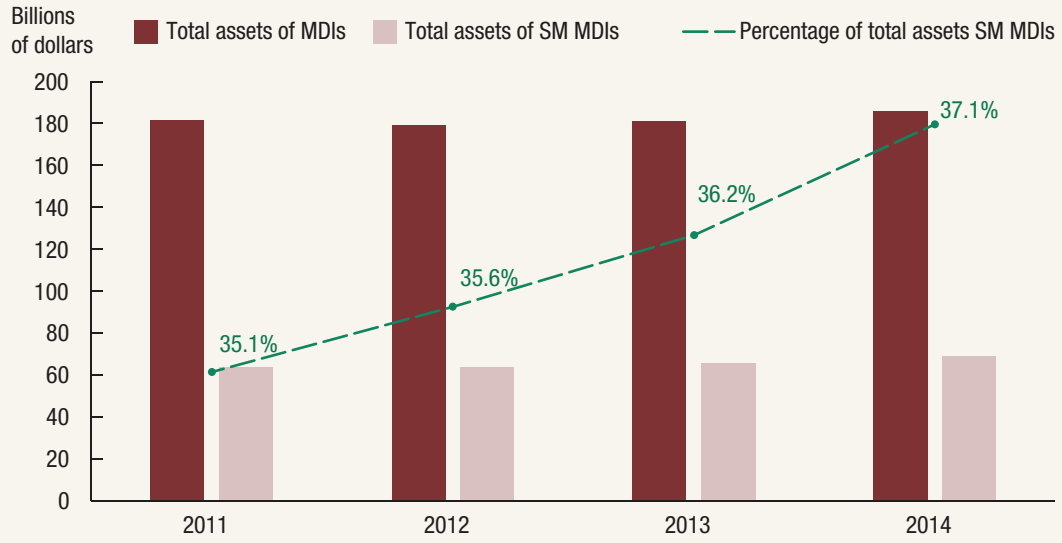
Figure A.2. Number of state-member MDIs by type of minority, 2011–14



Note: *MB* means the bank has a minority board that serves the minority type noted. For example, "Black-MB" is a state-member bank that has a minority board and serves the black community. Values for multi-racial, black-MB, Native American-MB, and multi-racial-MB are zero.

Source: Federal Deposit Insurance Corporation, fourth quarter 2014 data, www.fdic.gov/regulations/resources/minority/mdi.html.

Figure A.3. Assets by type of MDI, 2011–14



Source: Consolidated Report of Condition, as of December 31, 2014.

