



Comptroller of the Currency
Administrator of National Banks

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The OCC's Community Affairs Newsletter

Minority-Owned Banks Making a Difference in Their Communities

A Look Inside...

There are currently 40 minority-owned banks in the United States that operate with a national charter. Ask any leader of these minority-owned institutions (MOI) how they would like their bank to be perceived and the likely answer would be, “like a traditional community bank that just happens to be owned and managed by minorities.”

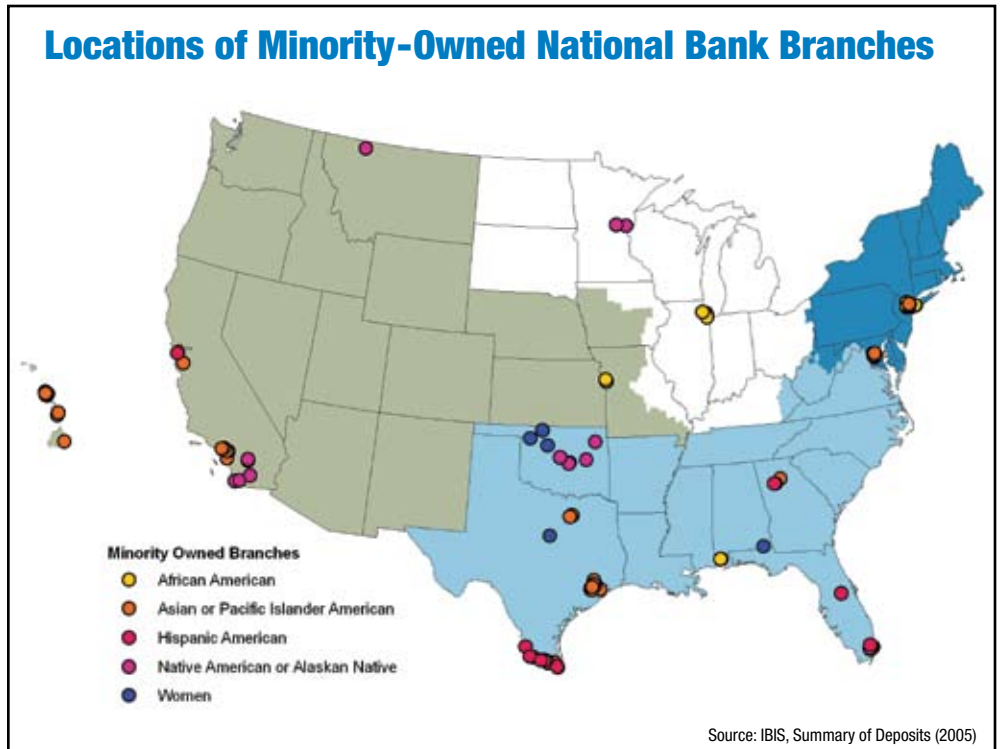
These leaders would also say that they recognized the financial needs of their communities long before Congress decided that it was important to require banks to invest in communities where they draw their deposits – a law we know today as the Community Reinvestment Act, or CRA.

MOIs are the focus of this newsletter – from the perspectives of how they serve their customers and communities, how they operate, and why it is important that they be preserved. In its pages, you will hear from many MOI leaders and representatives from their trade association, the National Bankers Association, or NBA.

They all have one over-arching message to their larger counterparts in the financial services industry. And that message is that in order for MOIs to grow and prosper, they must increase their capitalization and funding sources.

Investments in MOIs are investments in communities and in the preservation of a segment of the financial services industry that knows how to serve these communities.

In a 2001 policy statement, the OCC affirmed its commitment to work with industry and the other bank regulators to ensure that MOIs can find those resources. Today, financial institutions



of all sizes looking for investment and partnership opportunities with MOIs can receive CRA consideration for these activities.

We hope that you will find this newsletter helpful as your bank explores opportunities to partner with and invest in MOIs. They are win-win partnerships that yield good returns to everyone – the MOIs, the communities they serve, and the larger financial services industry.

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Minority-Owned Banks— Making a Difference in Their Communities

by John C. Dugan, Comptroller of the Currency

Although there are fewer than 200 minority-owned banks in the United States — accounting for about 2 percent of the banking industry’s total assets — their importance can’t be measured solely by such statistics.

Take City National Bank (CNB) of New Jersey, for example. Founded in 1973 and headquartered in Newark, CNB is the only commercial bank in the state owned by African-Americans. With a mission to serve the underserved, CNB is well aware of the urgent need for inner-city neighborhoods to offer good child-care facilities, freeing parents to find and keep full-time jobs.

When Memorial Day Nursery of Paterson — the nation’s oldest child-care center, founded in 1887 — sought funding to expand by buying and renovating a 16,000-square-foot building, it had trouble finding conventional financing. In response, CNB created a loan package that included tax-exempt bond financing through the New Jersey Economic Development Authority, which reduced Memorial’s annual debt obligation. As a result, Memorial opened its new facility in 2003, accommodating 285 children — and helping their parents. “City National was highly professional,” according to Deborah Hoffman, the Treasurer of Memorial’s Board, “and sympathetic to our mission to provide exemplary educational services to Paterson families.”

This success story has many parallels



Recent Commonwealth National Bank advertisement

elsewhere. In Mobile, Alabama, for example, African-American banker Sidney King recalls that, in 1969, when a group got together to talk about opening a minority-owned bank, “the highest position held by a black man in a Mobile bank was that of a janitor.”

It took seven years to get the new bank launched, but today the founders of Commonwealth National Bank are understandably proud that black men and women in Mobile, who want a career in banking, have a meaningful opportunity to do so in their home town. Indeed, agile management and advance planning enabled Commonwealth to be the first bank in the area to reopen for business after Hurricane Katrina devastated the Gulf

Coast. The bank’s depositors did not have to wait to get their hands on much-needed cash.

A similar commitment to its core communities is a key to the success of Omni Bank, which focuses on meeting the banking needs of Asian-Americans in the San Gabriel Valley area near Los Angeles. The bank’s multilingual staff of 62 includes people fluent in three different Chinese dialects, Vietnamese, Thai, Tagalog (a Filipino language), Spanish, and Japanese.

“We will speak whatever language is required to make the customer feel comfortable,” says Cary Ching, Omni’s president and CEO. That is just one

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Comptroller Dugan (left) speaking with Stanley Weeks (center) of City National Bank of NJ and Saurabh Narain of Shorebank at the March 2006 National Bankers Association Conference.

States, slightly down from the 196 in operation in 2004, but up from the 189 in 2003. While the number of minority-owned institutions has not increased, there is still some good news. An annual survey by Creative Investment Research, a Minneapolis-based firm that tracks minority-owned banks for investors, reported

that minority-owned institutions' combined assets were \$161 billion in 2005, 89 percent higher than the assets held by these financial institutions three years earlier.

way the bank builds customer loyalty. For example, Omni also uses low-cost car loans to help previously unbanked customers build credit — recognizing that owning a car is essential to earning an income in an area where job opportunities are dispersed and public transportation is limited.

Vital assets

As these examples illustrate, minority-owned institutions are a vital part of the fabric of American banking today. A recent report issued by the Government Accountability Office found that at the end of 2005 there were 195 minority-owned banks and thrifts in the United

States is increasing rapidly. Hispanics accounted for more than half of the growth in the U.S. population in the past decade. Eight U.S. metropolitan areas now have immigrant populations of one million or more, and rural areas are also experiencing more racial and ethnic diversity. The buying power of minority populations is expected to reach \$1.7 trillion by 2010, more than triple its 1990 level of \$454 billion.

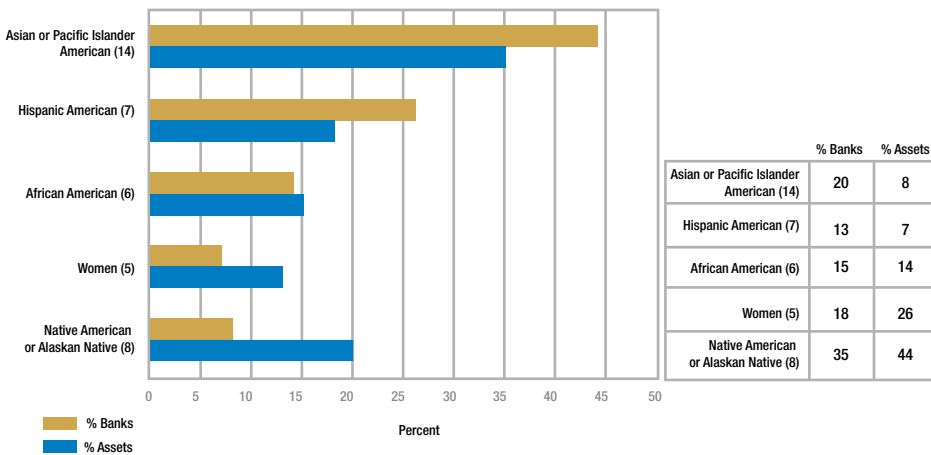
These trends bode well for minority-owned banks and thrifts. But these institutions are also operating in an increasingly competitive marketplace, in part because of the success of the Community Reinvestment Act (CRA) in encouraging major mainstream banks to increase their lending and services in historically underserved neighborhoods and areas.

Minority-owned banks operate in a national marketplace that offers strong potential for growth. The minority population in the United

Minority-owned banks, with their relatively small asset base and their commitment to serve low- and moderate-income customers, sometimes struggle. Minority financial institutions had an average return on assets (ROA) of 0.84 percent at the end of 2004, according to Creative Investment Associates, and while this was up from 0.65 percent in 2003, it was far below the 1.29 percent average ROA for all insured commercial banks and savings institutions.

As they compete for market share, minority-owned banks face an array of challenges. Some may be constrained in their ability to take advantage of marketplace opportunities because their available capital and capital-raising capacity are inhibited. Many are unable to offer top managers competitive salaries and benefits, and thus are at risk of suffering a talent drain as mainstream banks seek to diversify their own management hiring. And some struggle with the difficulty

Minority-Owned National Banks By Controlling Owner



Figures represent ethnicity of controlling owner. Sources: OCC's most current minority-owned bank list (as of December 2005), and, bank financial data (as of December 31, 2005) from the Integrated Banking Information System (OCC).

OCC's Minority- and Women-Owned Bank List

The OCC maintains a list of minority- and women-owned national banks on the Minority Banks page of agency's Web site (<http://www.occ.treas.gov/minority.htm>). This listing may be useful to minority- or women-owned institutions seeking to identify peer banks against which to compare operating performance. The list may also be of assistance to financial institutions that want to establish

business relationships with, or invest in, minority- and women-owned banks. The most recently updated list includes 40 national banks. In addition, the Federal Deposit Insurance Corporation (FDIC) maintains a listing of FDIC-insured minority-owned financial institutions on its Web site at <http://www.fdic.gov/regulations/resources/minority/index.html>

of increasing their core deposits.

For example, deposit growth is the biggest challenge faced by Atlanta-based, minority-owned United Americas Bank. According to Jorge Forment, president and CEO of the bank, which serves a largely Latino population, "UAB has many accounts with relatively low balances and a customer base that routinely sends half its paycheck to relatives living outside the United States."

To cope with such challenges, minority-owned banks strive to be better than their competitors at the very things that motivated them in the first place: targeting the needs of customers who, because of color, ethnicity, or other socioeconomic factors, historically have not been well served by mainstream banking institutions. Yet, as more and more of those customers move into the mainstream themselves, and as their communities in many instances become more gentrified or otherwise upwardly mobile, minority-owned banks face new challenges of tailoring their services accordingly.

Supporting good banking

The Office of the Comptroller of the Currency is strongly committed to the vitality of minority-owned banks, and has issued a policy statement describing OCC policies and initiatives aimed at advancing this goal.

- To assist those interested in investing in or partnering with

minority-owned banks, OCC identifies annually minority-owned national banks that participate in the Treasury Department's Minority Bank Deposit Program, and posts this information on National BankNet, OCC's Internet site for national banks, as well as on OCC's public Web site at <http://www.occ.gov/cdd/cdresourcedir.htm>

- The Treasury Department's Minority Bank Deposit Program (MBDP) helps promote the success of minority-owned banks

by encouraging federal, state, and local governments, as well as pension funds and the private sector, to use MBDP participants as depositories and financial agents (see sidebar below). This dovetails with the OCC and other regulators in providing CRA consideration for banks making deposits in minority-owned banks.

- OCC offers advice and technical assistance to applicants interested in entering the national banking system. For instance, a minority-owned national bank whose mission focuses on serving low-income persons or communities may seek certification as a community development bank or community development financial institution (CDFI), which can enhance a bank's ability to raise capital from third-party investors,

U.S. Treasury Department's Minority Bank Deposit Program

The U.S. Treasury Department's Minority Bank Deposit Program (MBDP) is an initiative to help establish, preserve, and strengthen minority business enterprises. Minority-owned financial institutions are included under the definition of minority business enterprises.

MBDP is a voluntary program that encourages federal agencies, state and local governments and the private sector to use MBDP participants as depositories and financial agents. Eligible participants include commercial banks and savings and loan associations that are minority-owned or minority-controlled; commercial banks and savings and loan associations that are owned, controlled and operated by women; and, credit unions serving low-income members (i.e., low-income credit unions).



agency must coordinate the banking-type arrangements with its headquarters office and the Financial Management Service.

Potential federal government deposits include agency deposits of public money, cash advances to federal contractors and grantees; certain independent demand deposits, e.g., Postal Service deposits; and certificates of deposit (CDs). Typical CDs include the non-appropriated funds of various military organizations (exchange or club funds), certain Department of Agriculture funds, and funds that the Bureau of Indian Affairs invests on behalf of Indian Tribes and Alaskan Native Villages.

The Financial Management Service certifies eligibility for MBDP participation and maintains and publishes the roster of participating

An eligible financial institution must apply and be certified by the Treasury Department's Financial Management Service to participate in the MBDP. Once certified, MBDP financial institutions market their services to federal agencies as they would to any potential customer.

As part of their marketing efforts, MBDP participants typically contact local, regional and national offices of federal agencies to determine if banking-type services are needed and can be established. If a federal agency chooses to use a MBDP participant as a depository, the

financial institutions. The roster is distributed periodically to federal agencies, interested state and local government agencies and private sector enterprises, and minority banks.

A list of minority-owned institutions currently participating in the MBDP can be viewed at the FMS Web site. For additional information, log on to the MBDP Web site at www.fms.treas.gov/mbdp/index.html.

such as other banks, foundations, and local governments. The District Community Affairs Officers, located in the OCC's district office where the bank is headquartered, can provide information on seeking these certifications as well as a range of other support services. [See Benefits of CDFI Certification, below.]

- National banks contemplating investments in minority-owned financial institutions may qualify for positive Community Reinvestment Act consideration, and may make such an investment under the Part 24 community development investment authority under certain conditions. [See Compliance Corner: Encouraging Investments in Minority-Owned Banks, page 21.]
- OCC is also committed to work with minority bankers to identify challenges and opportunities as part of its supervisory process and through its quarterly reviews of bank performance. OCC experts can provide guidance on subjects, such as credit, asset management, consumer compliance, capital markets, bank information systems, legal issues, and economic conditions. OCC provides examination continuity for minority-owned banks by assigning a portfolio manager familiar with the bank and assigning examiners who assess the products and services offered by the bank and its performance in the context of its size and mission.

We recognize that we can do more. In that spirit, we have launched an internal review process to develop strategies to enhance OCC's minority bank supervision and support, track

MinBanc Foundation Scholarships

MinBanc was established in 1999 as a nonprofit foundation generating scholarship funds to advance the education of minorities in the financial services industry. Scholarship grants of up to \$4,000 per employee per year are made available to eligible management employees of minority- and women-owned banks. Each year scholarships are awarded to employees of between 15 and 20 institutions. Since its inception, over 2,000 employees of minority- and women-owned banks have received scholarships from MinBanc.



Additional information on MinBanc may be obtained from the National Bankers Association at (202) 588-5432.

our progress, and assess the impact of our initiatives. The OCC firmly believes that healthy minority-owned banks are essential to a healthy national banking system.

The articles in this issue reinforce that

point. They will also introduce you to people you need to know — dedicated men and women who, in the cause of serving minority populations, are also strengthening community banking's bedrock foundations.

Benefits of CDFI Certification

Community development financial institutions (CDFIs) are specialized financial institutions that have community development as their primary mission.

The benefits of being certified as a CDFI include, but are not limited to, access to financial and technical assistance from the CDFI Fund; eligibility for partnership opportunities with banks that are seeking Bank Enterprise Awards from the fund; access to the New Markets Tax Credit (NMTC) program; and enhanced ability to raise funds from foundations, corporate donors, and/or state and local governments. For national banks, investments in CDFIs are considered qualified public welfare investments for the purposes of CRA and Part 24 (12 CFR 25.23 and 12 CFR 24.6).

To be certified by the U.S. Treasury Department's CDFI Fund, a CDFI must:

- Serve an eligible target market – criteria require that 60 percent of a CDFI's activity must be primarily directed toward investment areas, low-income targeted populations, and/or other targeted populations.
- Be predominantly a financing entity.
- Provide developmental services – such as technical assistance or financial counseling in conjunction with its financial products.
- Maintain accountability to its target market.
- Be a nongovernmental entity.

For more information on CDFI certification, please visit the CDFI Fund's Web site at www.cdfifund.gov.

The NBA Journey

by Norma Alexander Hart, President, National Bankers Association

In 1927, the leaders of 14 African-American banks joined together to form the National Bankers Association (NBA), compelled by the realities of the times to find creative ways to advance their communities and banks. While that sense of togetherness remains, today's NBA has expanded to represent 53 member banks and thrifts owned and focused upon service to other minority groups, including Hispanics, women, Asian Americans, and Native Americans.

Meeting on the heels of Hurricane Katrina last year, NBA leaders discussed the different challenges they face. First were the difficulties of three NBA members whose New Orleans banks were destroyed by the hurricane. Officers from the three banks worried their institutions would be pulled under by high defaults on flood-damaged properties and the everyday difficulties of running a bank in a town where employees had no homes.

NBA responded by raising money for the member banks' rank-and-file employees, while individual member banks opened their doors to fellow NBA members, giving their disaster recovery teams a place to operate as well as operational support in the months following the storm.

The helping hand lent to the three New Orleans banks demonstrates that the same sense of camaraderie that led to the founding of the NBA more than 80 years ago still exists today. Unfortunately, many of the challenges facing minority-owned institutions back then remain concerns today, including the need for additional capital to grow.



CEOs participating in the OCC's panel discussion on "Meeting Unique Challenges: the Importance of Preserving Minority-Owned Institutions" on February 16, 2006. (Left to right) Sidney King of Commonwealth National Bank, B. Doyle Mitchell Jr. of Industrial Bank of Washington, Walter E. Grady of Seaway National Bank, and Louis E. Prezeau of City National Bank of NJ.

Minority Markets

The NBA was formed, in part, because minority banks needed a forum in which to share best practices for operating in more risky markets, with less capital, serving customers who make relatively small deposits across relatively more transactions. Those challenges continue to make it difficult for minority-owned banks to operate on par with majority-owned banks, yet the work these institutions do in communities is vitally important.

The trade association also gives voice to the unique challenges facing its members. While some NBA banks operate within higher-income

minority markets, many NBA member banks were founded in areas where majority banks historically did not operate or in locations where minorities were underbanked. In these markets, minority banks served African-Americans, Native Americans, Asians, women, and Hispanics, recycling money into the community long before the Community Reinvestment Act (CRA) existed. Historic segregation and gender discrimination created a protected market for minority-owned banks that no longer exists. Yet the challenges of operating in minority markets remain, creating a continuing need for NBA to serve as a voice on Capitol Hill and to represent minority-owned institutions when regulatory issues arise.

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Big Competition

In today's market, minority-owned banks are seeing increased competition from large banks, which are recognizing minority customers as a growth market.

CRA, in particular, has brought many large banks into minority communities. In addition, while minority communities have benefited from the influx of dollars, those commitments have changed the risk profile taken on by some minority institutions. A minority institution might nurture a local business owner through the riskier start-up period. However, as the business matures, it may outgrow the minority-owned bank's legal lending limit, or find a larger bank with lower overhead costs able to loan capital to that now much-less-risky business at a lower rate.

One cannot fault majority banks for seizing the best business opportunities within minority communities, but it can be painful for a minority-owned bank to lose the business customer it so carefully nurtured in years past.

Syndicate Answers the Call

In some cases, syndication has provided the answer. For instance, when the National Park Service wanted to turn Atlanta's Ebenezer Baptist Church, where Martin Luther King, Jr. was pastor, into a historic monument, it offered the church land across the street to build a new sanctuary.

A major bank agreed to provide \$8 million in financing to build the new church, if the congregation raised the down payment by a certain date. When the church needed more time, the bank refused to extend the loan commitment and the pastor called upon NBA Chair

James Young, president/CEO of Citizens Trust Bank, Atlanta, Ga.

Since Citizens could not hold an \$8 million note, Young called NBA members in several other cities and together the banks made a syndicated loan to the church.

Lacking Capital

One of the reasons that many minority banks cannot extend larger loans is that they have issues raising additional capital to fund growth. This is caused in part by the fact that they typically choose to raise their start-up funding from community leaders via private stock sales rather than going through the public stock process.

We strongly support the provisions of CRA that support majority bank investment in minority banks

That public-purpose philosophy underpinning many minority-owned banks contrasts with the current trend of starting banks with the intent to build the institution in size until it comes to the attention of a larger bank willing to pay a much higher price for the bank.

Invest in Us

One of NBA's long-standing goals has been to help minority institutions raise the capital needed for expansion. We strongly support CRA provisions that encourage majority bank investment in minority banks.

The NBA knows that the Office of the Comptroller of the Currency well understands these issues, and we appreciate the agency's efforts to

clarify CRA rules governing credit for investment in minority banks. The fact that we can advance this issue is another indicator of the benefit of having organizations such as NBA. We would likely not be heard if a single minority-owned bank spoke out, or broke away from a larger banking trade group, in Washington, to visit Capitol Hill to talk about CRA investment in minority-owned banks.

As an organization, we will continue to focus on trying to find friends in Congress and on persuading regulators of the value of minority-owned institutions for minority communities. We believe that other regulatory agencies will follow the OCC's lead in respecting minority banks rather than penalizing them for the different markets that they serve.

Making the Best of a Challenge

We operate in many communities, including some that are the last to be developed and the first to feel a weakening economy, and yet we manage to serve these communities, to stay in business, and to thrive. Moreover, judging from what we share with each other at our annual NBA meeting, minority banks have many lessons to impart about what works in serving our markets profitably. Through CRA investments in NBA member banks, majority banks will be well poised to tap into the extensive knowledge base of our members.

For additional information, contact Norma Alexander Hart at (202) 588-5432.



Canyon National Bank Sets the Pace for Tribal Outreach

by Valerie Van Winkle, Senior Vice President, Canyon National Bank

Since its founding eight years ago, Canyon National Bank, one of a handful of Native American-owned banks, has seen capital growth and profits that outstrip those of many majority-owned banks. Started with \$8 million in capital in 1998, the bank today holds \$240 million in total assets and has four branches serving the local Agua Caliente Band of Cahuilla Indians (ACBCI). The ACBCI's initial capital investment of \$3.6 million has paid off both fiscally and culturally. The bank's average return on equity exceeded 20 percent in 2004 and 2005, while it provided culturally sensitive products and services to Native American and non-Native American customers.

Headquartered in Palm Springs, California, Canyon National Bank's market area includes the tribe's reservation, which spans Palm Springs, Cathedral City, Rancho Mirage, and portions of unincorporated Riverside County.

Growth and outreach in Native American finance has become the standard at Canyon National Bank. With a 45 percent investment by the ACBCI, Canyon National Bank is expanding its portfolio of Native American bank relationships, providing loans, investment deposits, ATM processing, and other services to both tribal governments and their members.

Economy Building

The bank, in its efforts to provide specialized banking services to Indian Country, recently helped the Torres Martinez Band of Desert Cahuilla Indians build its first economic development project. The project was



Canyon National Bank's branch in tribally-owned Heritage Plaza, Palm Springs, CA.

a full-service Travel Center in Salton City on Highway 86, a busy stretch of interstate that serves recreational travelers and businesses transporting goods between California and Mexico.

This project has generated a significant revenue stream for the tribe's economic development division in part because the bank demonstrated to the tribe how to make the most of their investment. The bank participated in the funding of an enterprise that will bring great economic benefits to the Torres Martinez tribe.

Gaining trust and respecting tribal culture are significant requisites for working in Indian country.

The performance of the Tribal Services Division has contributed greatly to

the bank's overall success. Related loans and deposits amounted to as much as 20 percent of total assets, and the outstanding payment history of this portfolio has benefited the bank's bottom line.

Unique Challenges

One of the bank's most unique challenges has been to replenish tribal loans that pay off early from the proceeds of gaming operations. As a result, Canyon National Bank now strives to become "Indian Country's Bank" by continuing to grow its efforts in business and personal finance to empower Native Americans. Expanding its outreach to tribes in eight states (California, Washington, Oregon, Arizona, Nevada, New Mexico, Idaho, and Colorado) is evidence of this commitment.

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The bank plans to expand its presence and scope of services within the Native American community. This top priority will be funded with additional resources targeting the bank's expanded service area.

Culturally Tailored Products

As it continues to grow its market share, Canyon National Bank is confident that its combination of Native American cultural expertise and solid capitalization will enable it to meet the needs of bank customers everywhere in Indian Country.

The bank's distinct products and services include a minor trust deposit account, and need-specific workshops for school-aged children, budding entrepreneurs, prospective homebuyers, and teens anticipating receipt of trust monies.

Bank employees are also trained to focus on Native American customer needs. Not only are they experts in tribal-specific programs, many employees help customers find outside resources that can provide other nonbanking services.

Providing financial services at the tribal level has posed another set of challenges and opportunities. Canyon has structured loans to sovereign nations, which required developing the trust of historically underserved individuals. Tribes and their land are protected entities by virtue of their legal status as sovereign domestic nations. Thus, a thorough knowledge of tribal law, creative intellect, and political awareness are required when working with tribes.

Government Loan Expertise

Even something as routine as mortgage

lending is different when a bank enters the Native American market. During the past 18 months, Canyon National Bank has established itself as a lead processor of the U.S. Department of Housing and Urban Development's Indian Home Loan Guarantee Program (Section 184). The Section 184 program provides Native Americans with homeownership opportunities throughout Indian Country in the United States. The program was developed specifically for Native Americans seeking homeownership opportunities on fee simple land, on Tribal Trust Land, or on individually allotted land on a reservation. The number of people that did not realize they were eligible for this home loan product surprised us. It is so rewarding to see families buying the home of their dreams and know that they are being treated fairly.

The performance of the Tribal Services Division has greatly contributed to the bank's bottom line.

Market Sensitivities

Even for a bank familiar with Native American culture, the obstacles involved in home mortgage lending can be frustrating. For instance, leasehold interests can satisfy most secondary market loan collateralization issues, but sometimes tribes want input on structuring loan documents. Once a tribe wanted to apply tribal law to a leasehold agreement. Canyon had to decline this request. Fortunately, the tribe withdrew this condition, and we were able to make mortgages in that community.

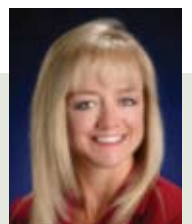
Gaining trust and respecting tribal culture are significant requisites for working in Indian Country. Like all bank customers, Native Americans

also expect to be treated with integrity and respect. However, the political sensitivity of a government infrastructure intricately woven by generations of family ties can be difficult to manage.

In one particular case, the bank had established a strong, five-year relationship with a tribe. A dramatic shift in a tribal council election replaced long-standing members with representatives from different lineal families whose ideas varied considerably from their predecessors. The new regime was cautious of the bank's relationship with the former council and within a matter of months, completely unraveled years of stable progress. These situations, albeit infrequent, highlight a bank's vulnerability to political changes in Indian Country.

Regardless of these challenges, Canyon keenly appreciates Native American culture and successfully fills a niche providing Indian Country access to financial empowerment. Our bank is staffed with people who are passionate about helping other people. Those of us who work at Canyon National Bank see ourselves as liaisons who help bridge two worlds. On one side, we are bank experts committed to working with the regulatory bodies to resolve issues that have been historically thorny. On the other side, we are committed to understanding Native American law, Native American culture, and gaming. When we bring together our expertise from both worlds, Canyon National Bank creates fiscal benefits for all our customers.

For additional information, contact Valerie Van Winkle at (760) 325-4442.



Commonwealth National Bank: Bank Where You Won't Get Lost in the Crowd

by Sidney King, President and CEO, Commonwealth National Bank

For the first 25 years it was open, Commonwealth National Bank, Mobile, Ala., struggled with volatile operating results. However, the last few years have produced some of the best results in the bank's history, and we're proud to say that shareholders have received growing dividends in each of the last five years.

Two key factors that contributed to our recent success have been the establishment of an experienced management team and a marketing program specifically targeting the predominately African-American population that we were founded to serve in 1969.

In the fall of that year, the highest bank position held by a black man in Mobile was that of janitor. Believing that the only way black men would gain exposure to the city's banking industry was through a minority-owned bank, Commonwealth National Bank founder W.O. Powell convinced 14 other men to invest 15 cents each to cover the cost of corresponding with bank regulatory agencies about opening a full service minority-owned bank.

Capital an Issue Then and Now

In 1971, the regulatory agencies told W.O. Powell and his investors that they would need to raise \$1 million in capital to qualify for a commercial

bank charter. After several years of campaigning through the Black churches, local schools, postal workers and door-to-door solicitation, the association was only able to raise \$750,000 from more than 900 individuals. However, when the bank organizers presented a proposal that supported the adequacy of the lesser capital amount, the OCC approved the proposal and Commonwealth National Bank opened for business in a trailer on February 19, 1976.

While our assets have grown from \$9 million dollars in 1988 to approximately \$60 million today, there is considerable room for growth. Our near term goal is to grow our assets to \$100 million by 2010. We currently have two locations in Mobile and one in nearby Prichard. With the pending merger of Alabama's two largest banks, we hope to open more strategically located branches in the Mobile area in the future and to expand our current market share of about one percent of the city's deposits.



Recent Commonwealth National Bank advertisements

Commonwealth was created to provide Mobile's historically underserved and unbanked minority community with access to credit and capital. Without a banking relationship, one will never learn the discipline of money management. Without this discipline, one can never escape poverty. Our mission today continues to focus on ending this generational problem and to make our community a better place to live.

Many Hurdles to Overcome

Raising capital continues to be a major limitation in our ability to reach our growth goals. At \$60 million, we have limited capital to continue our current growth trend. Internally generated capital will fund modest growth, but additional sources are necessary to support our \$100 million goal. Additional capital will increase our lending limit

and put us in contention for million-dollar-plus quality loan opportunities in our market. Greater returns from these loans will improve our earning potential. Capital is the ingredient that lifts us off the ground and powers us far beyond what our founders ever imagined.

In the beginning, the African American faith-based community was the bread and butter of the African-American banks. They were our

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largest supporters and depositors. Over the years, the majority banks discovered the strength of this customer base (thanks to the Community Reinvestment Act [CRA]), and these banks now dominate this market by catering to the wishes of the church leaders. Unfortunately, these leaders do not understand that by transferring the wealth of their congregation to the large out-of-town banks they are disinvesting in their own local community.

Another example of the challenges facing our community is the fact that the large out-of-town banks have centralized their operations. As a result, credit decisions are made based totally on the numbers. Banking is a relationship business, and community banks understand this concept. Locally, the large banks are turning down loans with FICO credit scores below 630, even if the customer has had five timely paid loans in the past. Many of these customers are being referred to Commonwealth because we can make these loans. It is still a challenge, however, to get these new loan customers to move their deposit relationships.

As a community bank, our resources do not always match those of our larger competitors. With all of the large banks in our market offering a free checking account, we had to yield to competitive pressure and offer our “Free at Last” free checking account. The account offered free checks, unlimited check writing, no minimum balance or direct deposit requirements, free Internet with bill pay, convenient ATM access, and a minimum opening deposit of \$25. During the first full month of offering this product, we opened 240 new checking accounts versus 92 for the same month the previous year.

We have developed a relationship with

one of the large banks in our area to allow our customers to use their ATM machines without being charged an access fee. We pay the large bank a fee for this service and we do not pass this additional cost on to our customers. It is a value added service that we provide to our customers.

Raising capital continues to be a major limitation in our ability to reach our growth goals. Capital is the ingredient that lifts us off the ground and powers us far beyond what our founders ever imagined.

The majority of our customers could be characterized as high transaction/low balance accounts. This makes our operation more labor intensive when compared with other banks our size. As a result, our earnings tend to be below other banks our size. We consider our “peers” to be other minority-owned banks serving economically challenged, inner-city communities similar to ours. Most peer comparisons include banks our size and make-up that serve higher wealth communities with comparably-sized populations. These peer banks may have equal deposit sizes but probably half of the customer base. Typically, their customers have better paying jobs, larger deposit balances, and own, rather than rent their homes.

Targeted Marketing Program

To appeal to the approximately 45 percent of the Mobile population that is African American, Commonwealth’s advertising slogans offer targeted, upbeat messages such as:

“Bank where your daughter could one

day be President”
“Black Banking and Proud”
“What’s your bank doing to make your community a better place?”
“Bank where you won’t get lost in the crowd”
These campaigns were all well received and successful in developing new business.

The first and the third of each month, when government checks are issued and people come to get cash, are the busiest banking days for our bank. After reading the book *Fish! A Remarkable Way to Boost Morale and Improve Results* by Stephen C. Lundin, we looked for an idea to make this busy time a positive experience for our customers.

We began giving our customers a Hershey “Kiss” when they completed their transactions on the first or third day of the month. This campaign was so well received that we began giving our customers a “Kiss from Commonwealth” everyday. While most customers are happy with the chocolate kiss, some request the real thing!

Keys to Success

While our experienced management team and targeted advertising campaign continue to bring new customers through our door, it is our unique brand of quality customer service that keeps them coming back. We are truly making a difference in our community.

We are especially proud of the fact that we were the first bank in our area to open for business the day after Hurricane Katrina ripped through the Gulf Coast area in 2005. After Hurricane Ivan in 2004, we purchased a generator for our Prichard location, which allowed us to open for business at 9 a.m. the morning after Katrina hit

Mobile. We provided approximately 100 customers with needed cash in the wake of the worst storm in American history.

The keys to success for Commonwealth can be summed up in our core values: Service, Integrity, Confidentiality, Profitability, and Security. We have an active board of directors led by retired Marine General J. Gary Cooper and a management team with nearly 200 years of combined financial services experience. Our unique brand of knowledge, experience, and creativity

has transformed Commonwealth National Bank into the bank our founders envisioned more than 30 years ago.

While the large banks continue to grow larger through acquisitions and focus more on commercial accounts, there will always be a place for community banks. Customers still appreciate the personal touch and quality service that make them feel special.

Over the last five years, we have picked up tremendous momentum toward

becoming a high performance bank. We have reached record asset size and produced record earnings. Shareholder value has grown to respectable levels and annual returns have been consistent and growing. Commonwealth is poised and positioned to move on to the next level in its transformation.

For additional information, contact Sidney King at (251) 476-5938.



OCC Affirms Support for Minority-Owned Banks

In 2001, the OCC issued a Policy Statement on Minority-Owned National Banks recognizing the important role that minority-owned banks play in addressing the financial services needs of the communities they serve and affirming the agency's commitment to the success of these banks.

Consistent with the goals of Section 308 of the Financial Institutions Reform Recovery and Enforcement Act of 1989 (FIRREA), which includes preserving existing minority depository institutions and promoting the creation of new depository institutions, this statement outlines OCC's policies and initiatives to further the ability of minority-owned banks to prosper.

- Identification of Minority-Owned Banks
 - OCC will maintain annually a list of minority-owned national banks and make it available on its Web site to entities interested in establishing business relationships with minority-owned institutions.
- Formation of Minority-Owned Banks
 - OCC will provide advice and technical assistance to minority-bank applicants interested in entering the national banking system.
- Capital for Minority-Owned Banks
 - The OCC's Community Affairs Officers will: (1) provide technical assistance to minority-owned institutions interested in structuring community development investments under the "public welfare investment authority" (12 USC 24(Eleventh) and 12 CFR 24); and (2) assist established minority-owned banks in seeking designation as a community development focus bank. Such designation may help institutions establish their eligibility for funding from the Treasury Department's

Community Development Financial Institutions Fund.

- Investments in minority-owned banks are allowable investments pursuant to 12 USC 24(Eleventh) and 12 CFR 24 ("Part 24"), depending upon the nature of the institution's mission and business operations, and may also be eligible for positive consideration under the Community Reinvestment Act.
- Examination Support for Minority-Owned Banks
 - OCC will provide examination continuity for minority-owned national banks through the assignment of portfolio managers familiar with the bank.
- Information, Education and Outreach for Minority-Owned Banks
 - OCC will sponsor roundtable discussions or conferences for CEOs and senior managers of minority-owned banks to highlight "best practices" and issues of particular relevance to minority-owned institutions.
 - OCC will sponsor outreach events throughout the country to discuss supervisory and industry issues with OCC personnel.
- Supervisory Cases
 - The OCC will encourage the preservation of the minority character of institutions in cases involving mergers or acquisitions. When supervisory cases entail resolving a minority-owned national bank, OCC will work with the FDIC and provide the support to enable the FDIC to identify potential minority investors.

For additional information, the policy statement and list of minority- and women-owned national banks are located at www.occ.gov/minority.htm

Targeting Untapped Hispanic Market Pays Dividends for United Americas Bank, NA

by Jorge L. Forment, President and CEO, United Americas Bank

Customers come from as far as 30 miles away to do their banking with United Americas Bank, NA (UAB) – Banco Unido – in suburban Atlanta, because the bank offers them something they can't find anywhere else – the feeling that they're at home. Home, in this case, is Latin America.

UAB opened in 1999, to tap an unfilled market niche in Atlanta, Georgia, offering banking products to Hispanic businesses and consumers in its predominately Latino service area. Our bilingual staff speaks the language of Latin countries and understands the subtle cultural differences in those lands because the staff consists of employees from 12 different countries.

People come to UAB because they find it more comfortable to communicate with its employees than with tellers in English-speaking banks. We can explain things so they understand. They come in, socialize, and conduct their banking business, and many of the customers will bring their children, especially on the weekend. It is a major outing to the bank and the other shops – it is a family affair.

Formed by a group of prominent Hispanic entrepreneurs, UAB serves a continually expanding Latino population in the Greater Atlanta area. Many members of this group moved from California, Texas and Mexico to Atlanta to work in jobs related to the 1996 Olympics and never went home.

Between 1990 and 2000, Georgia's Latino population tripled and today,



From UAB's "Mattress Bank" advertisement, the boys find their parents' money hidden underneath the mattress.

the four counties surrounding Atlanta – Gwinnett, DeKalb, Cobb and Fulton – are home to about 65 percent of the state's Hispanic population, according to the U.S. Census Bureau. The Georgia Hispanic Chamber of Commerce estimates that 1.2 million Latinos reside in Georgia owning 13,000 businesses.

Humble Beginnings

The planning for UAB took place in the basement of one of the organizer's home, furnished with two computers and two folding tables. After receiving preliminary approval for a national bank charter, UAB offered its stock to the public, selling \$12 million in shares in only 48 days.

Today, UAB's typical depositor is a blue collar, lower-income wage earner whose primary language is Spanish. About 65 percent of UAB's customers are Mexican-American. Its customer

base reflects Atlanta's appeal to immigrants from Mexico, Colombia, Venezuela, Puerto Rico, Cuba, the Dominican Republic, and many other South and Central American countries.

In addition to its main office in Atlanta, UAB has two stand-alone branches, located in Dekalb and Cobb counties. Two of the bank's branches are open seven days a week to meet the needs of its customers.

Cultural Challenges

Our customers' cultural and socioeconomic profiles contribute to the bank's biggest challenge – the ability to raise core deposits. UAB has many accounts with relatively low balances, and a customer base that routinely sends half its paycheck to relatives living outside the United States.

Persuading Latinos to trust United States banks is important in UAB's marketing strategy. Immigrants who have recently been introduced to the banking system through first-time accounts hold approximately 15 percent of the bank's deposit accounts. In some of the countries from which immigrants come, credit is frowned upon. Banks sometimes shut down without notice. Moreover, in the rural areas of those countries, there may not be any banks.

Many immigrants believe that if they must suddenly leave the United States, they will lose any money they have in the bank. UAB strives to explain the safety of United States banks and assures customers that if they're forced to exit the country suddenly, the bank can, and will, send their money anywhere in the world.

The bank also emphasizes the safety of depositing money in the bank, and warns Latinos that it is unwise to carry all their money in cash. Hispanics are routinely targeted for assaults, and robberies, because of their cultural practice of carrying large amounts of cash.

Bank employees offer consumer seminars on topics, such as how to open a bank account, how to start a business, and how to buy a home. The bank reaches out to business people through the Georgia Hispanic Chamber of Commerce, the Latin American Association, and Georgia's Mexican American Business Chamber.

To reach the unbanked, UAB developed a Spanish-language television commercial, "The Mattress Bank," that was a spoof on putting one's money under the mattress (see advertisement, page 14). In addition to television ads, UAB has also advertised in Spanish-language periodicals (Atlanta has nearly two dozen) and on Latino radio



¿Sabías Que? means "did you know that" in Spanish. UAB advertisement promotes this Hispanic-owned bank in the Atlanta market.

programs. The bank's posters sum up the advantages of using UAB: Free! Money Transfers; Check Cashing; Notary Public. Still, the bank's most effective marketing tool is one that costs nothing: word of mouth.

The Special Touch

While UAB's biggest challenge is education, especially of laborers, the bank also serves many professionals coming from the countries that comprise its customer base. For that customer base, banking is an every-day occurrence, but one that is more pleasant when transacted with someone who speaks the language and understands the culture. We offer the same products as offered by other community banks. However, we separate ourselves from the competition by the level of service, the personal response we give to the customer and, most importantly, the language and cultural knowledge.

Consumer Products

The bank has created several products designed specifically to fill the needs of Latino customers, including an ATM product, secured credit cards,

mortgages, and small business loans.

The ATM account, opened with as little as \$100, carries a \$10 monthly fee, allows customers to avoid the cost of out-of-country electronic remittances, and offers a more favorable exchange rate than local money exchanges offer. With this product, the customer opens a deposit account and receives an extra ATM card that is sent to a relative in the home country. The relative then uses the ATM card to withdraw the funds in the home country.

UAB's secured credit card is often a customer's first step in establishing American credit. Since many customers do not have traditional credit, the customer normally uses a savings account to guarantee the credit card limit. A typical secured credit card customer at UAB has a line of \$500 to \$1,000. Delinquencies are quite rare – the bank has had to close an account only a few times since it began offering the product in 2001.

The bank's mortgage product incorporates non-traditional credit criteria and makes credit judgments based on income and the borrower's history in making timely utility,

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How Majority- and Minority-Owned Institutions Can Work Together

Majority and minority-owned banks can help each other in many ways. The following are examples of investment tools and resource-sharing techniques that have been used successfully to create meaningful partnerships.

- Majority-owned banks can purchase the stock of, or make deposits in, minority-owned institutions to provide the capital needed to grow their franchises. Minority owned banks can structure and market these offerings to majority banks.
- Majority- and minority-owned banks can establish two-way correspondent relationships on loan business. Minority-owned institutions can make larger loans in excess of their legal lending limits if majority banks purchase participations in these transactions. Likewise, majority institutions with large credit facilities might consider participating them to minority-owned institutions.
- Majority-owned banks might offer employee training and consulting on operations with minority-owned institutions. Minority-owned banks can provide incentives for their employees to take advantage of these resources.
- Majority-owned institutions might offer “officer-on-loan” programs to minority-owned banks. Minority-owned banks might take the initiative to join local professional associations and establish peer-to-peer relationships with their colleagues at majority institutions.
- Majority- and minority-owned banks can permit officers to sit on the board of directors of their respective banks provided they conform to the “small market share” exemption to management interlocks covered in [12 USC 3201 et seq.].

telecom and other recurring payments.

In addition, the borrower must have filed at least two years’ past Internal Revenue Service tax returns. Borrowers must also attend a first-time homebuyer education program.

Despite the use of non-traditional credit histories and a willingness to accept household income based on the earnings of multiple adults, UAB’s loan losses have been negligible. In the more than five years that UAB has been originating these mortgages, the bank experienced losses of less than two-tenths of one percent on a \$65 million mortgage loan portfolio.

Business Products

In the business community, UAB works to bridge the gap between its customers’ entrepreneurial spirit and American market requirements for record keeping and accounting. Latinos work hard and know how to run their businesses, but many are not used to organizing their paperwork in the American way.

While we are a bank serving the Hispanic market, we are first and foremost a national bank offering a full array of business banking products to our customers. The bank offers business checking, corporate checking, business NOW accounts (for sole-proprietors and nonprofits) and a money market account.

In addition, UAB offers commercial real estate loans to businesses for acquisition or construction of office, retail, industrial, warehouse or multifamily properties. These 80 percent loan-to-value (LTV) loans typically amortize over 20 years with term financing periods of 5 or 7 years during which the interest rate can be fixed or adjustable.

Businesses in need of working capital also come to UAB, which provides commercial loans to carry inventory and/or accounts receivable, to fund expansions or to purchase additional equipment. The bank typically looks to the company’s real estate as collateral for the loan. UAB also provides floating rate residential home construction loans to homebuilders with good credit history.

Compliance Challenges

We examined our other lines of business, paying increased attention to compliance with anti-money laundering and the Bank Secrecy Act (BSA) regulations. We also considered our business with a number of small grocery stores that sell phone cards and cash checks. Because of the additional resources necessary to monitor this type of business, we determined that we could no longer service certain accounts.

While our product line is similar to those offered by other community banks, UAB’s approach to business is unique. Many banks today offer bilingual customer service, but few realize the subtle cultural differences among those who share the Spanish language as a native tongue. Employees from a dozen different Spanish-speaking countries ensure that UAB is up to the task now and in the years ahead.

For additional information,
contact Jorge L. Forment
at (404) 240-0101.



Omni Bank Shines in a Niche Market

by Cary Ching, President and CEO, Omni Bank, NA

A combination of private-banking-style attention and personalized service delivered in the home country languages spoken by Asian-American immigrants got Omni Bank off to a solid start when it opened its doors in 1979. Low service fees and the bank's willingness to follow its customers as they moved to nearby California communities are what have kept those customers loyal in today's competitive community banking market.

Headquartered in Alhambra, CA, Omni Bank, with assets of \$202 million, has branches in Monterey Park, Rowland Heights, and San Jose. These are areas in the San Gabriel Valley near downtown Los Angeles, areas that have long attracted Chinese and other Asian immigrants.

Today, over half the bank's loans are made to Asian customers and 80 to 90 percent of its deposits are from the Asian community that traditionally favors gold, cash, and bank deposits over equity investments such as stocks. Omni's typical depositor has a five-figure account. In fact, 50 percent of Omni's CDs are jumbos, above the deposit insurance limit, and 80 percent of those CDs are for a term greater than a year. They may carry terms of 90 days or 180 days, but customers tend to continue to roll over their CDs for years.

Building trust is also important when dealing with Asian-Americans. In the United States, banking is a highly regulated industry and its operations are vastly different from those in the countries from which Omni's customers have emigrated. In Asia,



Customer service at Monterey Park, CA, branch of Omni Bank, N.A.

many banks are large and mostly government owned or controlled. With corruption not uncommon, the concept of trustworthy private bank ownership is new to, and embraced by, most immigrants. Asians trust United States banks.

In Their Own Words

Omni's staff of 62 employees pays special attention to the bank's customers. The bank's multilingual employees speak the Chinese dialects of Mandarin, Taiwanese and Cantonese, Vietnamese, Thai, Tagalog (a Filipino language), Spanish, and Japanese. Employees will speak whatever language is required to make the customer feel comfortable.

If newly arrived immigrants need help with more than just banking, employees will pass along information on topics ranging from American

schools to U.S. accounting practices, as well as referrals to lawyers and other professionals.

When customers are treated well, they will open new accounts when they start businesses or purchase homes. In our branches, we try to call existing customers and market through word of mouth. If you treat new immigrants with respect and dignity and help them, they will spread the word to their friends and relatives.

Bank Secrecy Act Issues

With a large volume of high-risk products and services (i.e., non-resident alien accounts and funds transfers activities to and from Asia), Omni has adopted and adhered to a risk-based approach in detecting, identifying, monitoring, and managing Bank Secrecy Act (BSA) risk. At the same time, we have effectively

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controlled the high cost of complying with anti-money laundering and BSA regulations. Compliance with the requirements of BSA has become part of the daily routine in each department of the bank. While other small banks' BSA departments employ three or four full-time staff members, we only have one BSA officer who, with the help of two assistants (who also have other job duties), oversee the activities of five branches. Periodically, I personally conduct spot checks on the management information reporting system on large cash aggregations and risk concentrations to ensure the effectiveness of our BSA program.

While many banks shy away from dealing with nonresident aliens, Omni prides itself in prudently servicing and developing this customer base while adhering to the enhanced due diligence requirements of the BSA. We work with our nonresident alien customers, treat them with respect, and turn them into valued account relationships.

Public Service Focus

Providing a high level of customer service can be costly, and Omni's success is in controlling expenses through employee efficiency. We have a unique and seasoned management team that is not seeking competitive market compensation. Rather, team members value personal achievement and job satisfaction over monetary significance. They prefer to work in an Asian-focused environment serving a predominately-Asian customer base. They value this job opportunity as a way to serve and give back to the community.

Focus on Immigrant Customers

Several Omni products target recent

immigrants, especially those without a U.S. credit history. Quite a few customers work for traditionally small businesses, such as restaurants, and some may not have a well-established income record. For these customers, Omni may consider a small credit limit if our experiences with their depository accounts are satisfactory.

For an unsecured credit card, the customer must have an acceptable credit history, with no late payment records. Currently, Omni has about 1,000 credit card customers.

Omni also makes car loans. It is the first loan our customers really need since they have to drive to work because California lacks a mass public transit system and places of employment are widely spread out throughout each county. We start with a car loan and if the customer is qualified for a car loan, the customer is automatically granted a credit card.

Commercial Products

Omni Bank's commercial lending unit finances income-producing commercial real estate, such as apartments, office buildings, warehouses, shopping centers, and mixed-use properties. The typical Omni Bank commercial real estate loan carries a maximum 75 percent loan-to-value ratio over a 15-year term (amortized over 30 years) and is available as a fixed or variable interest rate.



Customer service at Monterey Park, CA, branch of Omni Bank, N.A.

Our commercial loan offerings include asset-based loans, equipment and capital lines of credit, trade financing, Small Business Administration (SBA) loans and the California Capital Access Program (CalCAP), the state's version of the SBA program.

Omni Bank's construction loans provide developers with financing for single-family residences, tracts, condominiums, apartments, and other planned unit developments as well as commercial income-producing properties.

Filling the Need

Omni Bank shows that it is possible not only to survive, but to prosper as a community bank operating in a niche market. Its formula for success – combining special products targeted to the community it serves with a working culture of responsiveness, speed, flexibility, reliability, and shared accountability – is one that any bank seeking to tap into an emerging market would do well to emulate.

For additional information, contact Cary Ching at (626) 284-5555 x101.

Supervising Minority-Owned Banks: A Two-Way Street

by Tim Long, Senior Deputy Comptroller, Mid-Size/Community Bank Supervision

At a recent speech to the National Bankers Association, Comptroller John Dugan announced that OCC will implement new initiatives to strengthen its support of minority-owned institutions (<http://www.occ.gov/ftp/release/2006-112a.pdf>).

Comptroller Dugan noted that the OCC is launching a minority banking Web site, enhancing the content on its BankNet site to make it more useful to minority bankers, and initiating an internal review process to assess the effectiveness of its efforts to support minority banks.

The OCC has long recognized that minority banks face difficult challenges as they seek to serve customers who often are unbanked, underserved, or unable to meet conventional creditworthiness criteria. It is recognized that minority-owned banks are important community and national assets, and the OCC strives to provide high-quality regulatory supervision and support.

Mutual Goals

Just as minority-owned banks are committed to addressing the financial services needs of the communities they serve, the OCC is dedicated to ensuring that a safe and sound national banking system is available to all Americans. Consistent with these complimentary missions, the OCC's examiners communicate regularly with minority bankers to identify risks and discuss methods of addressing supervisory issues.

For example, in one instance, a minority-owned bank's management team and our examiners had some fundamental differences of opinion about loan review practices and credit risk ratings. It would have been easy for both sides to "dig in their heels" but that wouldn't have advanced our mutual goal of strengthening the bank's risk management systems. Instead, our examiner-in-charge arranged for one of our experienced examiners to hold a one-day session for bank management, covering OCC's approach to evaluating loan review and credit risk ratings.

By thoroughly explaining what we seek in bank systems, and offering to share the best practices and knowledge we have gained from examining a host of community banks, we could provide this bank with convincing insights for modifying its processes. That most likely would not have happened if both sides hadn't made an extra effort to communicate.

Compliance is another challenging area for minority institutions, as it is for all banks. We recently encountered a situation in which the board of directors of a minority-owned bank consisted of prominent business people and leaders in their community, but none were

Banco Unido
¡Tu Banco Amigo!

Servicios
de Apoyo
Financiero
Personal



United Americas Bank's Spanish language brochure offering personal financial services.

bankers. Consequently, the directors were not familiar with the numerous compliance laws with which the bank needed to comply. The bank's president enlisted our examiners' help in providing training for the board

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on crucial topics, including Bank Secrecy Act and anti-money laundering requirements. It was important to us – and to the bank – to ensure that the board fully understood the various regulatory requirements and could more effectively oversee the bank’s compliance systems.

We Learn Too

Education is a two-way street, and we often learn from the banks we supervise. For example, a particular minority-owned bank has developed a niche in a specialized loan product — one that many other institutions avoid because of its inherently high risks. Our examiners quickly realized that, to be able to evaluate the quality of the bank’s portfolio and its risk controls, they needed to better understand the product and the bank’s underwriting practices.

It is recognized that minority-owned banks are important community and national assets, and the OCC strives to provide high-quality regulatory supervision and support.

Our examiners met with the bank’s senior credit officers and explained that the higher past dues in this portfolio raised supervisory concerns. But the bank was able to show them that the portfolio was structured and managed in such a way that higher delinquencies did not translate into higher losses. With that insight, our examiners were better able to understand the product and the bank’s risk management controls.

Highlights of Additional OCC Resources on Native American Banking

- *Commercial Lending in Indian Country: Potential Opportunities in an Untapped Market* (March 2006) discusses the specific approaches that bankers active in this market have used to accommodate unique business and legal challenges, including several federal programs available to manage the risks in tribal commercial and business development.
- *A Guide to Tribal Ownership of a National Bank* (September, 2002) is an OCC publication designed to help federally recognized Native American tribes explore entry into the national banking system by establishing, or acquiring control of, a national bank.
- OCC’s Fall 2001 *Community Developments Newsletter* “Banking in Indian Country” contains articles addressing how financial institutions, tribal organizations, and others have developed partnerships that lead to increased access to lending and other financial services on tribal lands. Successes are described in the areas of home mortgage lending, commercial lending, retail services, financial literacy initiatives, and development of Native American financial institutions.

Appreciating Differences

At the OCC, just as we work to promote cultural diversity and awareness in our own workforce, we try hard to ensure that our examiners understand the cultures of the minority banks they supervise. We have found that our internal resources can help us extend our support of diversity in our relationships with minority-owned banks.

As an illustration, many of the minority-owned banks OCC supervises serve Asian-American markets. There is a concentration of these banks in one of our field office areas. Realizing that OCC examiners could provide more effective oversight of these banks if they had a better general understanding of the Asian business culture, the Assistant Deputy Comptroller (ADC) responsible for that office organized a “Diversity in Action” training session for the examiners.

The ADC enlisted one of our OCC diversity consultants, who is also an experienced and respected bank examiner, to lead a discussion of the characteristics of Asian cultures and how to apply an understanding of those cultures to the examination process. The session was a success — improving the examining team’s understanding of how cultural considerations affect Asian banks’ lending practices.

These are just a few examples of how OCC examiners have been creative in providing high quality supervision for minority-owned institutions. As Comptroller Dugan notes in his introduction to this issue of *Community Developments*, we understand that minority-owned banks operate in a challenging environment. We, at the OCC, are committed to making an extra effort to remain sensitive to the unique attributes of these important community-based financial institutions.

Encouraging National Bank Investments in Minority-Owned Financial Institutions

by Stephanie Caputo, Community Development Expert, OCC

In 1992, a provision was added to the Community Reinvestment Act authorizing federal bank and thrift regulatory agencies, when evaluating a bank's CRA performance, to consider as a factor capital investments, loan participations, and other ventures undertaken by the institution in cooperation with minority-owned financial institutions, provided that these activities help meet the credit needs of the local communities in which the minority-owned institutions are chartered. The statute does not restrict consideration of these activities, for CRA purposes, to those that benefit the assessment area(s) of the investing institutions that undertake these activities.

On January 11, 2006, the four federal bank and thrift regulatory agencies issued an interagency letter, in which they reaffirmed the CRA statutory intent (see <http://www.ffiec.gov/cra/pdf/minorityownedinstitutions.pdf>). The letter stated that a financial institution's investments in a minority-owned institution would receive favorable CRA consideration, even if the minority-owned institution is *not* located in the assessment area(s) of the investing institution or within the broader statewide or regional areas that include the investing institution's assessment area(s) (emphasis added).

Examples of CRA-Eligible Activities to Assist Minority-Owned Institutions

The current interagency CRA policy guidance gives examples of qualified investments. The qualified investments include lawful investments, grants, deposits or membership shares in or to:

Financial intermediaries (including certified community development financial institutions (CDFIs), community development corporations (CDCs), *minority- and women-owned financial institutions* (emphasis added), community loan funds, and low-income or community development credit unions) that primarily lend or facilitate lending in low- or moderate-income (LMI) areas or to LMI individuals to promote community development. (See Interagency Questions and Answers Regarding Community Reinvestment, 71 Fed. Reg. 12,424, 12,433 (July 12, 2001) (Q&A § __.12(t) – 4)).

For some years, therefore, CRA policy has permitted banks and thrifts to receive favorable consideration for making qualified investments in minority-owned financial institutions that serve LMI areas or LMI individuals.

In addition to making qualified investments, banks may provide loans and financial services to minority-owned institutions that would receive CRA consideration. The following list contains examples of loans, investments, and services for which institutions would receive CRA consideration in support of minority-owned banks and thrifts:

- A large national bank purchases participations in loans made by a minority-owned bank to businesses in the minority-owned bank's community, to help reduce the credit exposure of the minority-owned institution (lending activity).
- A majority-owned bank buys certificates of deposit in several minority-owned institutions located throughout the country (investment activity).

- A majority-owned bank with assessment areas in the northeastern United States, invests in a CDFI-certified minority-owned bank serving a low- or moderate-income area in the Gulf Coast region (investment activity).
- Officers of a majority-owned bank serve on the board of directors of a minority-owned bank (provision of financial services).

Sources of Legal Authority for Minority-Owned Investments

National banks may invest in minority-owned financial institutions by using one of several regulatory authorities. Banks contemplating investments in minority-owned institutions can rely on the public welfare investment authority under 12 CFR 24 ("Part 24"), as well as the regulatory authority under 12 CFR 5 ("Part 5") and 12 CFR 1 ("Part 1") to make certain types of investments.

Part 24 Investment Authority

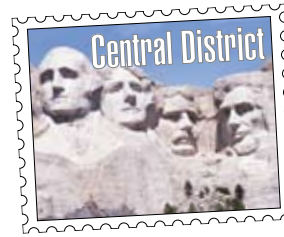
Under Part 24, which was promulgated under the authority of 12 USC 24(Eleventh), national banks may make equity investments in minority-owned institutions that serve primarily LMI persons or LMI communities. In addition, typically, a national bank may make Part 24 investments in minority-owned banks and thrifts that the Community Development Financial Institutions (CDFI) Fund has certified as CDFIs (see sidebar on Benefits of CDFI Certification, page 6).

The OCC's District Community Affairs Officers can provide technical assistance to national banks interested in making community development investments under Part 24.

This just in . . . OCC's districts report on new opportunities for banks



Bonita Irving (617) 482-1643
Denise Kirk-Murray (212) 790-4053



Paul Ginger (312) 360-8876
Norma Polanco-Boyd (216) 447-8866

Massachusetts Finances New Smart Growth Initiatives

The Commonwealth of Massachusetts recently enacted two legislative initiatives ("40R" and "40S") that provide funding for communities with "Smart Growth" development plans. 40R provides financial incentives to communities building higher-density affordable housing and mixed-use developments in designated smart growth areas. Smart growth areas are designed to minimize sprawl by focusing development in locations with public transportation and infrastructure requirements already in place, and with "walkable" town centers providing shopping and employment opportunities independent of cars and highways. The companion legislation, 40S, provides direct payments to towns offsetting increased educational costs per family for the newly occupied affordable housing units.

To learn more about these programs, contact the Office for Commonwealth Development, (617) 573-1380 or visit its Web site at: www.mass.gov/ocd.

Down Payment Assistance Doubles in Delaware

Recent increases in home prices in Delaware have made it difficult for new homebuyers to purchase homes. Now these homebuyers are getting financial help with buying a home. In May 2006, Delaware State Housing Authority doubled the down payment assistance for first time homebuyers. Through the Delaware Housing Partnership (DHP) Second Mortgage Program, purchasers can now get up to \$15,000 in down payment assistance for new construction. This assistance will make homes more affordable for moderate-income purchasers. The maximum amount that homebuyers may borrow in the Second Mortgage Assistance Loan Program (SMAL) has also been increased to \$6,000. Limits on borrower income and purchase prices have been raised to meet the needs of more borrowers attempting to purchase homes. Both DHP and SMAL are used for down payment assistance or closing costs.

To learn more about these programs, contact Community Relations at the Delaware State Housing Authority, (888) 363-8808 or visit its Web site at: www.destatehousing.com

Indiana Venture Center

The Indiana Venture Center (IVC) is a nonprofit organization that provides business development services to entrepreneurs developing high-growth companies in Indiana. IVC "Entrepreneurs in Residence" work closely with budding entrepreneurs to help them meet their growth milestones, monitor the rate at which they use capital, take a long-term strategic view of their business and the market, and help them communicate with stakeholders. IVC also has close relationships with five Indiana universities that help the Center's staff screen prospective clients and that provide expertise to companies chosen to be clients. In 2005, IVC worked with 29 companies to raise \$3.3 million in equity capital that leveraged an additional \$17 million in equity and debt investments. IVC is now helping to form a separate seed capital fund, IVC Equity Partners, that will invest in companies in 11 Midwest states in five industry categories: transportation and logistics, alternative energy and energy generation, custom and advanced manufacturing, life sciences, and information technology related to these fields. Banks can work with IVC by referring prospective clients to IVC, accepting referrals of companies from IVC, providing operating support to IVC and by investing in the new seed capital fund.

For more information, contact Steve Beck at (317) 684-6810 or sbeck@ivequitypartners.com.

Introducing the Grow Cuyahoga County Fund

The new Grow Cuyahoga County Fund makes loans of \$35,000 to \$1 million to small businesses in Cuyahoga County, Ohio that may not meet all conventional bank underwriting requirements but that have the potential to grow and create jobs. The fund often makes its loans in conjunction with bank loans and tailors its terms to fit the borrower's cash flow available for debt service, frequently by extending the loan maturity date. Loan proceeds can be used for any business purpose, including working capital, machinery and equipment purchases, land and building acquisition, new construction, building renovation, and leasehold improvements. Interest rates are between prime and prime plus two percent, and the loans may have terms of up to 25 years, depending on the useful life of the asset being financed. The Board of Commissioners of Cuyahoga County (BOCC) created the fund with the National Development Council (NDC), an economic development training and financing organization that also is a licensed SBA 7(a) lender and a certified community development financial institution. NDC will underwrite close, and service loans for the fund and will provide \$4 of matching funds for every local dollar invested in the Fund. BOCC and the Cuyahoga County Community Improvement Corporation provided the initial capital for the Fund and are seeking investments from other potential partners, such as banks, the Greater Cleveland Partnership, the city of Cleveland, the Port Authority of Cleveland, and local foundations. Banks can become involved in the Grow Cuyahoga County Fund by: (1) structuring the fund into financing packages for borrowers, (2) referring prospective borrowers to the fund, and (3) investing capital in the fund.

For more information, contact Anthony Thornton, Economic Development Manager, at (216) 443-3159 or by e-mail at cdart@cuyahogacounty.us.



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Top of Alabama Regional Council of Governments

Top of Alabama Regional Council of Governments (TARCOG) is a state-designated planning district operating in five northern Alabama counties. TARCOG provides funding access and technical assistance from programs of the Appalachian Regional Commission and Economic Development Administration. TARCOG staff support, write and administer grant and local program applications for HUD-funded state CDBG programs and USDA's Rural Development grant and loan programs. In addition, TARCOG has its own revolving loan fund (RLF). The RLF can provide additional financing to start-up and existing businesses behind a traditional commercial lender's financing. TARCOG is interested in working with banks that need a secondary source of financing to fund loans that create jobs. The loan can be used for business expansion or start-up of regional private for-profit firms. The fund can finance up to 50 percent of the total project cost or \$125,000, whichever is less. The maximum amount allowed for working capital is \$30,000. Terms are 10 years for land and building, 5-7 years for manufacturing/equipment, and 3 years for working capital. Rates are negotiable at or below prime.

For more information, contact Joe Howe, Project Officer at (256) 830-0818, or see their Web site at www.alarc.org/tarcog.

New Markets Tax Credit Investment Opportunity

Lone Star New Markets LP (LSNM), a community development entity (CDE), was awarded a \$10 million tax credit allocation from the U.S. Treasury's New Markets Tax Credit Program (NMTCTC). The managers of the Dallas-based fund intend to raise \$25 million in investment capital and will co-invest with Lone Star Growth Capital LP (LSGC), a \$15 million fund. The fund managers intend to secure \$40 million in commitments for their funds by the end of the third quarter. LSNM, which had its first closing in January 2006 for approximately \$16 million, provides investment capital for businesses located in underserved communities in Texas. LSNM and LSGC will make \$1 million to \$10 million equity-oriented investments in private middle-market companies located in low-to-moderate income areas in Texas. LSGC investors will receive a stated preferred dividend on invested capital.

For more information, contact Arthur W. Hollingsworth, Managing Partner, Lone Star New Markets LP, at (972)702-7390, or visit the Fund's Web site at www.lonestarnewmarkets.com.



Susan Howard (818) 240-5175
Dave Miller (720) 475-7670

Hawaii Community Reinvestment Corporation

The Hawaii Community Reinvestment Corporation (HCRC) is a nonprofit community-based financial services corporation that provides equity and financing for affordable housing developments throughout the state of Hawaii. The corporation was chartered in 1991 to provide technical and financial assistance for the creation and preservation of affordable housing in Hawaii. Since its inception, it has made more than \$147 million available for rental projects generating more than 2,600 affordable units. The projects have been completed through a combination of partnerships of financial institutions, private investors, and government agencies. HCRC offers permanent loans and tax credit equity funds. It also provides equity financing through the Hawaii Equity Loan Program (HELP). Six banks participate in the tax credit equity fund and nine have partnered to lend to the organization supporting the funding of more than 50 projects on five of Hawaii's islands. Project loans are long term and may be in amounts of up to \$10 million.

For additional information regarding HCRC, contact Donald L. Tarleton, President, at 808-532-3115 or tarleton@lava.net.

Native American Bank

Native American Bank, N.A., (NAB) is a minority-owned community development financial institution formed by a number of tribal nations and Alaska native corporations in 2001. NAB has been certified as a community development financial institution (CDFI) and a community development entity (CDE) for participation in the New Markets Tax Credit program. NAB is a wholly owned subsidiary of Native American Bancorporation (NABC), a single bank holding company. NABC is seeking to raise additional capital from Native American investors supplemented with additional investments from non-Native American businesses, banks, and foundations that share the vision of NABC and its commitment to improving economic conditions in Indian Country. The bank provides retail banking services, commercial lending, and agricultural lending services primarily to the community of Browning, Montana. NAB also maintains loan production offices in Box Elder, Montana, and Anchorage, Alaska. NABC has also established a community development corporation, Native American Community Development Corporation, focused on infrastructure, and individual (including housing) and small business needs.

For more information about investment opportunities with NAB, please contact Native American Bancorporation at (303) 988-2727 or visit the bank's Web site at www.nabna.com



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