

REPORT CARD

Bush's Cabinet Diversity Should be the Model for the Banking Industry: Diversity at the Board of Directors of the Twenty Largest Banks



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This is Greenlining's third annual report on board of director diversity at major banks and reflects board of director diversity in 2006.

In June 2006 the U.S. Government Accountability Office (GAO) issued a startling study¹ describing the lack of diversity among American banks. Unfortunately, the GAO study was limited by the imprecise data available from the U.S Equal Employment Opportunity Commission EEO-1 reports.

Greenlining's report addresses a key diversity leadership issue at America's twenty largest banks. Although the board of directors is only one segment of the banking management structure, it is a publicly available indication that most of America's banks have a long way to go to meet even President Bush's cabinet diversity. Presently, one-third or five of the President's fifteen cabinet members are minorities.²

Our report demonstrates that with one exception no bank has diversity sufficient to reflect the U.S. population or President Bush's cabinet's one-third diversity achievement. In fact, only four of the twenty banks (20%) have adequate records. The remaining sixteen indicate a "need for substantial improvement" and/or have effectively failed the test of representing America's diverse interests.

Based upon the GAO study of June 2006, it is likely that the new Congress and/or the regulators will commence major studies on the lack of diversity at all levels of management in the banking industry. This report would have undertaken all of these tasks except, with the rarest of exceptions, no bank would cooperate.

Many experts believe diversity at the upper levels of management, such as the board of directors, helps promote "safety and soundness" at banking institutions. This occurs in part by attracting leaders who understand both the dangers and the profitable potential of underserved markets.

In part, the present lack of diversity may help explain why there are still 56 million unbanked Americans despite often laudable, albeit futile efforts by banks to reach out to the unbanked. The banking industry, for example, has failed to capture even ten percent of the remittance market. Moreover, Western Union has five times the remittance market share of any bank in the nation.

Only One Asian American

As of December 2006, there were only two Asian Americans among the 292 board directors of the twenty largest banks. However, one of the banks, Golden West Financial, no longer exists due to an acquisition by Wachovia. Thus, despite the fact that the Asian American population is close to 15 million, with 1.5 million Asian American businesses, only one bank, Wells Fargo, as of 2007, has an Asian American on its board.

Equally alarming, less than five percent, or 12 of the 292 board members, are Latino despite there being 45 million Latinos in the U.S. who have approximately one trillion dollars in annual purchasing power. How, for example, can Wachovia, JP Morgan Chase, Metlife, or US Bancorp (four of the eight largest banks in the nation) seek to effectively serve the Latino community when none have even one Latino board member?

Although the number of African Americans on boards appears to be significant this is only in contrast to the virtual absence of Latino or Asian American board members. That is, with only four exceptions, the 20 largest banks have only one “token” African American board member.³ These discrepancies exist despite over forty years of civil rights efforts to reach out to the African American community.

Overall minority representation on our nation’s top 20 bank boards has barely grown over the last year: 38 of 295 in 2005 (12.9 %) and 40 of 292 in 2006 (13.7%).

Report Card: Citigroup, The Leader

To create competition among financial institutions to effectively represent America’s diversity and promote long term profits, the Greenlining Institute has developed a report card based on a curve that gives the President’s diverse cabinet an “A-,” a grade also given to Citigroup.

Wells Fargo secures special commendation since it is now the only major financial institution that has representation from all three major minority groups, African American, Latino, and Asian American. Banks with 10% diversity or less received a “D” (45% received a “D”).

For purposes of corporate transparency, the Greenlining Institute is a 501(c)3 nonprofit with sixteen board members. All are minorities. This includes five African Americans, three Asian Americans, and eight Latinos.

**Figure 1: The Report Card
Corporate Governance Diversity of the Top 20 Banks in the United States**

Grade Rank	Bank	Total Members	Total Minority	Percent Minority	GRADE
N/A	President's Cabinet	15	5	33.3%	A-
1	Golden West Financial*	9	3	33.3%	A-
2	Citigroup	16	5	31.3%	A-
3	KeyCorp	13	3	23.1%	B
4	Wells Fargo**	16	3	18.8%	B-
5	PNC Financial	16	3	18.8%	C+
6	Countrywide	11	2	18.2%	C+
7	SunTrust	18	3	16.7%	C
8	Washington Mutual	13	2	15.4%	C
9	BB&T Corp	15	2	13.3%	C-
10	Bank of America	17	2	11.8%	C-
11	Capital One Financial	9	1	11.1%	C-
12	Wachovia***	20	2	10.0%	D+
13	Regions Financial	21	2	9.5%	D+
14	National City	12	1	8.3%	D+
15	Bank of New York	13	1	7.7%	D
16	JP Morgan Chase	14	1	7.1%	D
17	Metlife	14	1	7.1%	D
18	US Bancorp	14	1	7.1%	D
19	Fifth Third Bank	15	1	6.7%	D
20	State Street	16	1	6.3%	D

*Golden West Financial no longer exists; it is now controlled by Wachovia. Wachovia declined to keep any of Golden West's minority board members. Had Wachovia retained all of the Golden West minority board members, it would have had the second best record among banks, second only to Citigroup.

**Wells Fargo received a "B-" rather than a "C+" because as of 2007 it is the only major financial institution with an Asian American on its board and the only major financial institution that has board members from all major minorities, African American, Latino, and Asian American.

***Wachovia recently appointed its second minority in 2006 but he did not begin until 2007.

**Figure 2: Breakdown by Race and Ethnicity of
Boards of Directors at the Top 20 Banks in the United States Listed According
to Asset Size**

	Bank	African Americans	Latino Americans	Asian Americans	Total Members	Total Minority	Percent Minority
1	Citigroup	3	2	0	16	5	31%
2	Bank of America	1	1	0	17	2	12%
3	JP Morgan Chase	1	0	0	14	1	7%
4	Wachovia	2	0	0	20	2	10%
5	Metlife	1	0	0	14	1	7%
6	Wells Fargo	1	1	1	16	3	19%
7	Washington Mutual	1	1	0	13	2	15%
8	US Bancorp	1	0	0	14	1	7%
9	SunTrust	3	0	0	18	3	17%
10	Countrywide	1	1	0	11	2	18%
11	National City	1	0	0	12	1	8%
12	Golden West Financial	1	1	1	9	3	33%
13	BB&T Corp	1	1	0	15	2	13%
14	Fifth Third Bank	1	0	0	15	1	7%
15	State Street	1	0	0	16	1	6%
16	Bank of New York	1	0	0	13	1	8%
17	PNC Financial	3	0	0	16	3	19%
18	KeyCorp	1	2	0	13	3	23%
19	Capital One Financial	1	0	0	9	1	11%
20	Regions Financial	0	2	0	21	2	10%
	Aggregate	26	12	2	292	40	13.7%
	Race/Total Ratio	8.9%	4.1%	0.7%			

**Recommendations and Actions Necessary to Promote Bank Profitably and
Move the Unbanked into Banking**

A growing consensus in Congress and among federal banking regulators advocate the need to promote more bank diversity at every level. The easiest level is at the board of directors level since many financial institutions have acknowledged that are hundreds of highly qualified African American, Latino and Asian American candidates.

The more difficult job will be to transform the senior management of most banks since the typical large financial institution generally has less than two percent of its top management who are African America, Latino, or Asian American. The first step in such transformation is transparency.

The simplest way to secure transparency is for the four major regulators to request data from large banks (1 billion dollars or more in assets) on their diversity at every level of senior management.

A complement to this would be federal legislation that builds on the GAO diversity study and mandates that regulators secure diversity data from all large banks on an annual basis.

As part of this diversity effort, every federal regulator should also consider updated annual studies on the correlation between profitability, “safety and soundness,” and diversity. Two such studies were done in 1992 by the Federal Reserve Banks of Boston and Chicago.⁴

This Report Card is available on the Greenlining website at:
www.greenlining.org

¹ **Williams, Orice M.**, “Financial Services Industry: Overall Trends in Management-Level Diversity and Diversity Initiatives, 1993-2004” www.gao.gov/cgi-bin/getrpt?GAO-06-617.

² **African American members:** Condoleeza Rice (Department of State), Alphonso Jackson (Department of Housing & Urban Development); **Latino members:** Alberto Gonzales (Department of Justice), Carlos Gutierrez (Department of Commerce); **Asian American member:** Elaine Chao (Department of Labor)

³ Regions Financial, however, is the only top twenty U.S. bank with no African Americans on its Board.

⁴ **Munnell, Alicia H., Lynn E. Browne, James McEneaney, and Geoffrey M. B. Tootell**, “Mortgage Lending in Boston: Interpreting HMDA Data,” Federal Reserve Bank of Boston, working paper, No. 92-7, 1992; **Hunter, William C.**, “The Cultural Affinity Hypothesis and Mortgage Lending Decisions,” Federal Reserve Bank of Chicago, working paper, No. 8, 1995.