



Testimony of  
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Before  
**Subcommittee on Oversight and Investigations**  
**Committee on Financial Services**  
**U.S. House of Representatives**

July 12, 2006  
“**Diversity: The GAO Perspective**”

U.S. House Committee on Financial Services Chairman Michael G. Oxley, Ranking Minority Member Barney Frank, Subcommittee Chair Sue W. Kelly, Subcommittee Ranking Minority Member Luis V. Gutierrez and members of the Subcommittee, on behalf of the New America Alliance, an organization of American Latino business leaders focused on the advancement of the American Latino community in the U.S. for the benefit of the United States as a whole, I wish to thank you for the opportunity to appear before you today.

Two years ago this Spring, the New America Alliance suggested that this Subcommittee, which has oversight jurisdiction over most of the entities comprising the U.S. financial services sector, hold hearings on the issue of diversity in the financial services industry. To your credit, and demonstrating that the Members of this Subcommittee, on both sides of the aisle, really believe in the fundamental American concept of equal opportunity for all, the hearing took place in July

2004. The New America Alliance's then Chair, Ana María Fernandez-Haar, was honored by being allowed to testify at that hearing. Following the hearing, we requested that this Subcommittee approach the Government Accountability Office (GAO) to see what information that agency could collect on the status of diversity in the financial services industry. The GAO has now completed its report, entitled, "Financial Services Industry: Overall Trends in Management-Level Diversity and Diversity Initiatives, 1993-2004."

In preparation for our testimony today, we have been given the opportunity to review this report, which we understand has been made public today.

We wish to again commend this Subcommittee and the GAO, for this initial, very important first effort in the form of the GAO report. It is impossible, based solely on anecdotal evidence, to determine to what extent progress has been achieved, and to what extent it remains to be achieved, in an industry as extensive, and as essential to all of us Americans, as the financial services industry. That industry not only holds, invests and manages much of the savings of all of our people, it is also the source of virtually all consumer and commercial credit in our country.

### **Importance and Business Need of Diversity in the Financial Services Sector**

Sociologists have determined through various scientific studies the natural tendency in human beings to subconsciously favor other individuals whose appearance and/or background is like one's own. We are not here to fault that tendency, but neither should it be ignored. To overcome this tendency and to be truly open to others different from ourselves, many (if not most) of us need to make a conscious effort.

Given the importance of the financial services industry to the economic advancement of all persons in our country, we believe it particularly important that the financial services industry reflect to the extent possible the very diverse human community that we are privileged to have in this country. We believe that over time, this will largely happen anyway, both as a matter of demographics and through market forces. The issue before us today is, are there non-coercive ways available to this Subcommittee to accelerate this process, so that the “time” involved to achieve this result can be shortened?

### **Powerful First Message and Next Steps**

We also believe in what the late President Theodore Roosevelt used to call “the bully pulpit,” as well as that our national leaders, including this Subcommittee, must periodically mount that pulpit and lead. In this regard, we believe that the hearing held by this Subcommittee in July 2004 and now, as well as the GAO Report, send a powerful first message to the financial services industry that the Honorable Members of this Subcommittee do care that there be equality of opportunity for all in this industry.

There are, of course, many ways for this Committee to continue to manifest its interest in this issue. Some can be extremely informal. Imagine, for example, that the Honorable Members of the House Financial Services Committee, acting individually, decided to systematically take advantage of their frequent meetings with constituents in this industry, or their representatives, to ask about the status of diversity in each constituent’s business, and perhaps even request a brief written update on the constituent’s efforts, programs and results in this regard. Were this to

become a common approach among many Members of the Committee, a very powerful message would quickly be sent to the entire industry.

### **Follow-up inquiries**

In terms of more formal, congressional action, we would very much like to see various follow-up inquiries on the GAO Report. For example, we would like the GAO to survey leading entities in various sectors of this industry directly, to see what the status of diversity is among these firms, what programs those firms are utilizing to improve diversity, and with what success. We realize that neither this Subcommittee nor the GAO has the power to compel private-sector responses to such surveys, but we believe it highly unlikely that firms approached in this regard by this honorable Subcommittee will decline to respond, and to the extent they do so, their refusal will be known publicly. It would be a great honor for us in the New America Alliance to work with the Committee and the GAO in this enterprise.

Similarly, we would like to see the GAO inquire of the federal regulatory agencies responsible for our nation's financial services industry -- the OCC, the Federal Reserve, the FDIC, the OTS and the SEC -- what the status of diversity is within their own agencies, what programs they have in place to promote diversity, and what the results of those programs have been. While we believe we have adequate federal civil rights legislation in place to promote integration and diversity, we also believe that, as a practical matter, it is difficult for regulators responsible for the implementation of that legislation in the financial services industry to lead the way if their own agencies are not themselves achieving diversity.

## **Other Significant and Noteworthy Statements from the GAO Report requiring further action and inquiry**

There are other follow-up inquiries that come to mind from many noteworthy and somewhat disturbing, if not surprising, statements in the GAO Report. Some examples are:

1. that the financial services industry may not be fully leveraging its “internal pipeline” of minority and women employees for management-level positions (p. 19);
2. that minority- and women-owned businesses generally have difficulty obtaining access to capital in traditional financial markets (p. 4);
3. that the chances for minorities and women of advancing from the professional category into management-level positions in the financial services industry, when compared with white males, are low (p. 20);
4. that minority- and women-owned businesses may face challenges in obtaining commercial bank credit because of the nature of their businesses (p. 23);
5. that given comparable loan applications by African-American and Hispanic-owned firms and white-owned firms, the applications by the African-American and Hispanic-owned firms are more likely to be denied (p. 25); and

6. that the Federal Reserve’s Regulation B, implementing the Equal Credit Opportunity Act, may inadvertently be a hindrance to determination of possible discrimination in the non-mortgage lending industry (p. 26).

## **Conclusion**

The New America Alliance commends and thanks Representatives Oxley, Frank, Kelly, Gutierrez and Scott for requesting that the GAO provide an overview on the status of diversity in the financial services industry (p. 1). The New America Alliance would be pleased and stands ready to collaborate on any follow-up inquiries that result from today’s hearing.

As you can see, in all of these instances what we are essentially asking this Subcommittee to do is to continue to shine a powerful spotlight on this issue, allowing the innate sense of fairness that is so strong in the American people, together with the market, the press and organizations like ours and the other ones appearing before you today, to take the matter further. Hopefully, as a result, when the GAO looks back on this issue 12 years from now, it will not begin its report at that time, as it did in the most recent one, with the same striking 19 words:

***“Between [2006] through [2018], overall diversity at the management level in the financial services industry did not change substantially . . .”***

Thank you very much.