

**Testimony of**

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## **Characteristics of the Illinois Banking Industry**

The banking industry in Illinois during the past 25 years has gone through a complete transformation from a “unit bank” state in 1967 to the present unlimited branching system. The Illinois constitution of 1870 prohibited branch banking, encouraging the emergence of a population of independent banks that by 1976 reached 1,225 bank holding companies. There were five large banks: the First National Bank of Chicago, Continental Illinois National Bank, the Northern Trust, Harris Bank and Talman Home Federal Services, that dominated the industry.

The liberalization of the Illinois banking laws caused a contraction in the number of bank holding companies, from 1,225 in 1976 to 864 in 1995 and an expansion in the number of branches from 233 to 1,842 during the same period. The Reigel-Neal Interstate Banking and Branching Efficiency Act of 1994 accelerated the consolidation of the banking industry in Illinois and further reduced the number of banks from 864 in 1995 to 664 in 2003. The number of branches increased from 1,842 to 3,136 during the same period. The new law also brought about increased competition from superregional banks leading to the acquisition of four of the largest Illinois banks by out-of-state bank companies. The Northern Trust is the only remaining independent bank holding company of the original group of large Illinois banks.

## **Personal Experiences as a Hispanic Banker in Illinois**

I entered the banking industry in Chicago in February of 1977 as a Management Trainee at the First National Bank of Chicago – now Bank One/ JPMorgan. I was part of a group of management trainees that included an Asian American, and two African Americans among others. The program consisted of a succession of three-month training assignments through the different divisions of the bank and after two years, the selection of a permanent position. The practical component of the training program was complimented with classroom training (both internally organized and offered by outside sources) and the assignment of a member of the bank’s senior management as a mentor. At the completion of my first year in the training program, I was allowed to select a permanent position. The division managers’ committee responsible for evaluating the trainees’ performance advised me that I was far more advanced than the rest of the group and that my two years of prior experience writing loan proposals and negotiating SBA loans would be applied to my credit at the program. I selected the position of Financial Services Representative in the Executive and Professional Banking Division, responsible for financing stock options for executives of large corporations. Within six months in this position, I was granted lending authority to approve secured and unsecured loans, becoming the second Hispanic with lending authority at the bank. I facilitated loans to prominent senior managers of large corporations and to several sports figures. Two years later, I was invited to join the Commercial Middle Market Lending Group, financing corporate clients and years later I moved to the International Banking Department as a Relationship Manager servicing the Latin American banking industry. While working in this last position, I was asked to take an assignment in Venezuela to help the bank restructure its Venezuelan loan portfolio. It was during this Venezuelan assignment that I

met senior managers of Banco Popular of Puerto Rico, a bank client, and 5 years later, my next employer.

During my employment at the First Chicago it became evident to me that I was one of just two Hispanics in the domestic lending area of the bank and that all the senior management positions were held by a single group, white males. Minority and female employees were relegated to positions in operations, personnel, and customer service, making it extremely difficult to advance. Members of my own group of management trainees were affected by this problem. It became evident that subjective considerations other than qualifications and performance were used in promotion and compensation. My personal response to this problem was to move to the International Lending Department of the bank where the opportunities for promotion were far greater and the rate of promotion much faster.

The 1982 outcome of a class action suit filed against Harris Bank by its female employees charging discrimination in promotion and compensation woke up the First National Bank of Chicago's senior management. Management initiated an internal analysis of the bank's labor force, developed affirmative action goals and plans, and an education and sensitivity training program for its senior officers and managers. It also initiated a public relations strategy directed to enhance the bank's image in the market place. As a result of this diversity initiative, a few minority males were promoted but the bulk of the beneficiaries of these efforts were white females. To this day, the bank lacks Hispanics in among its senior management in its lending areas, in its Board of Directors and in other positions of leadership. During the past years in my capacity as the pro bono Chairman of the Latin American Chamber of Commerce (LACC), I often invited Bank One to participate in an initiative developed by the LACC and the SBA to encourage local banks to participate in the Access to Capital program for minority companies. Bank One showed no interest in participating. The announcement that the bank was being purchased by JPMorgan, which required revision of the bank's CRA record, brought a renewed interest from the bank to participate with the LACC in the SBA loan program for minority businesses.

In 1987 I joined Banco Popular of Puerto Rico, which had acquired a small bank, in the heart of the Spanish speaking population on the Chicago's North Side, where I played a significant role in the provision of capital to the growing Chicago minority business sector. In 1994 I joined the Metropolitan Bank, one of a group of eight community banks with assets in excess of \$2 billion where I was responsible for directing the bank's lending activities and served on the bank's Board of Directors.

### **Efforts by Chicago Banks to Promote Racial, Ethnic and Gender Diversity in Senior Management and on the Boards of Directors**

A comprehensive review of Chicago's banking industry reveals that the employment of Hispanic senior lenders by the five largest financial institutions have increased significantly during the past five years as compared to any other period in Illinois history. In fact, two of Chicago's largest banks have formed teams of lending officers dedicated

almost exclusively to servicing the growing Hispanic business market. However, senior Hispanic officers in leading management positions (CEOs and senior executives) and board directorships are absent from these large Illinois banks. The major gains in leading management positions for Hispanics employed by the top tier banks are in the areas of operations, business development and diversity recruitment rather than management, policy making and activities central to the banks' profitability, which have changed over time. While the banking industry consolidation and competition from out-of-state banks have depleted the group of large banks headquartered in Illinois, so have these trends reduced the opportunities for minority participation in executive management in Illinois at these large banks, now based in other states.

Non-Illinois large banks with significant operations in Illinois present the same characteristics as the Illinois based large banks, except for Banco Popular whose CEO and a significant number of the leading management positions are held by Hispanics.

A somewhat different picture is observed in the community banking segment (banks with total assets between \$500 million and \$2 billion) where Hispanic senior lending officers occupy some leading management positions. Even in this sector there are no CEOs or Presidents but there are approximately 12 Hispanic Board Members in the top 6 banks.

One of the variables explaining the absence of Hispanics in leading management positions in the banking industry in Illinois relates to demographics. It is only during the past two decades that the Hispanic population in Illinois has experienced significant growth, which is reflected in an increasing number of junior level managers and officers in the banking industry.

### **Factors That Have Influenced the Banking Industry to Pursue the Hispanic Market and to Employ Hispanic Lending Officers.**

The factors that have influenced the banking industry to pursue the Hispanic market and to employ Hispanic lending officers are:

1. The growth of the Hispanic population in Illinois: The Hispanic population grew 68% in Illinois during the past decade to 1,531,000 people representing 12.3% of the total Illinois population.
2. The growth in size and industry diversification of Hispanic owned companies. The Hispanic business sector experienced significant growth in terms of size and industry diversification. Based on the 1997 census there are over 31,000 businesses generating almost \$5 billion in annual sales.
3. Gains in political representation: the past two decades have seen the development of Hispanic political representation at all levels of government: city, county, state and federal.
4. Shift in consumer's taste and preference. In the American economy, the demand for salsa has surpassed the demand for ketchup; the demand for Corona has surpassed the demand for Heineken Beer.

5. Change in attitude among the public resulting from increased exposure to the growing Hispanic population. A leading example is the market penetration of the Hispanic food industry and the increasing presence of Hispanic ball players and coaches in major league baseball. Conversely, the assimilation of Hispanics in the American culture, especially in the second generation, has led to a greater level of comfort.

### **The Status of Minority Owned Financial Institutions in Illinois**

An analysis of minority owned banks in the Illinois banking industry shows that the group of banks owned by Hispanics and African Americans remain in the category of Endangered Species. Increased competition from a greater number of out of state banks entering the Illinois market and the consolidation of the banking industry reduced the number of local Hispanic owned financial institutions from three to one. Banco Popular with assets in Illinois exceeding \$3.5 billion is considered an out-of-state bank. There were three locally owned African American financial institutions operating in Illinois at the beginning of this year. Of these three, one was sold in the first quarter of 2004 due to poor performance, one is currently in negotiations, and the third has been struggling to survive. The eight locally owned Asian American banks operating in the state have been able to maintain their market share in spite of serious performance challenges. The stability of these banks has been supported by the strong loyalty of their core customer base.

### **Summary**

In summary, the restrictive nature of Illinois banking laws produced a banking system that was unprepared to compete with banks operating in states with unrestricted bank branching, leading to the acquisition of the largest Chicago banks by out-of-state banks. The liberalization of the Illinois banking laws significantly reduced the number of banks operating in the state and the consolidation of the banking industry is expected to further reduce the number of banks, including minority owned financial institutions in Illinois. The progress made by the banking industry in Illinois in its efforts to promote racial, ethnic and gender diversity in senior management and on Boards of Directors have been disappointingly slow.