

**Launching an Institution Can Be a Complex Balancing Act**  
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With so many ethnic banks popping up in L.A. County in recent years, starting one would seem like a piece of cake.

But it's often harder than it appears, and not for lack of start-up money. Indeed, so much cash is pouring into ethnic bank formation that it's common these days for banks to have to return some of the capital raised.

Rather, the biggest challenge often involves a balancing act between targeting an ethnic community while still following regulations that require a bank to receive deposits and make loans to all comers.

"If a bank comes along and says it wants to focus exclusively on the Chinese-American community, it can be viewed by regulators as discriminatory," said David Woo, a longtime downtown Los Angeles attorney who has represented Chinese-American bank start-ups.

"But on the other hand," Woo continued, "regulators want to see a solid business plan from the prospective bank. And one way to come up with a strong business plan is to target an ethnic niche that's bypassed by mainstream banks."

As a result, business partners from an ethnic community who've gotten together to form a bank often have to do a delicate dance, saying to regulators that they will be open to all while also focusing on their ethnic base.

Take **Maria Contreras Sweet**, the former state official who's now the driving force behind the creation of Promerica Bank, the first locally-owned Latino bank to start in California in more than 30 years.

**Sweet** and her partners raised more than \$27 million from investors – so much more that "several million dollars" had to be returned because the stipulated funding limit had been reached.

In **Promerica's** case, the tension between targeting the ethnic community and remaining open to all comers is compounded by the desire of Sweet and her partners to have the bank qualify for minority-owned status.

**Sweet** went to local Latino business owners and their families and asked them to invest tens of thousands of dollars apiece in the new bank, promising these investors that the bank would be "like family" to Latino individuals and business owners who feel overlooked by mainstream banks.

But in regulatory filings, Sweet and her partners have gone to great lengths to say the bank's main target market would be "small to mid-sized businesses regardless of ethnicity."

**Sweet** resolves this dilemma with a careful turn of phrase: "We will serve all businesses regardless of ethnicity, but we will offer a special expertise in Latino businesses."

So far, that approach has appeared to work with regulators; the bank has cleared almost every hurdle and is now set to open before year's end.

But this is not the only regulatory hurdle faced by ethnic bank founders, especially now with the Sarbanes-Oxley Act and post-Sept. 11 security precautions.

The often burdensome requirements of the Sarbanes-Oxley Act kick in for banks with more than 500 shareholders. Ethnic banks, with their reliance on small investors, are more likely to face tighter financial controls and to be forced to provide greater transparency in their operations.

Also, ethnic banks – especially those with investors who have financial ties to their homeland, like many Chinese-American banks do – are finding themselves under increasing scrutiny in a post-Sept. 11 world. Specifically, intelligence agencies are tracking money flows from abroad into the U.S., looking for any ties to terrorist organizations.

"With all the additional tracking of foreign investments these days because of security concerns, ethnic banks present more complexities" for regulators, Woo said.

Ethnic banks looking to get started may also face some lingering stigma in the eyes of regulators. For example, Woo said regulators often require that an ethnic bank – especially one targeting a community that hasn't had many successful banks – have a chief executive with at least two years of experience in that position.

"It's never outright stated, but implicitly, the regulators are looking for a mainstream banker," Woo said. "And if you come up with one, then they will sometimes look the other way if he or she doesn't have that CEO experience."

This points up another difficulty for ethnic bank start-ups, especially in a community that hasn't seen a lot of locally-based banks. It takes extra convincing of both potential investors and regulators that the prospective bank has a sound business plan.

"If you're the first, it's always the hardest," said A. Wade Francis, a banking consultant with Unicon Financial Services Inc. in Long Beach.

But, Francis said, if the first bank is successful, then it becomes much easier for the second and third bank targeting a specific ethnic community to go in and raise the capital. Things can become more difficult, though, if a community gets oversaturated with banks.

“One bank serving the Cambodian community is good, and so might be a second one,” Francis said, referring to Golden Coast Bank, the first bank focusing on the Cambodian community. “But do you really need three banks targeting such a small community?”

With so many locally owned and foreign-flagged banks already targeting these communities, there’s some level of uncertainty over just how much financing will be available for new ventures.