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Proposal would promote women, minorities at financial regulators

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WASHINGTON — Final terms of the sweeping financial overhaul legislation being crafted in Congress would create new Offices of Women and Minority Inclusion at all federal financial regulators with the goal of promoting racial, ethnic and gender diversity throughout those agencies.

These offices are being hailed by supporters as an important milestone in pushing diversity at slow-to-change agencies that oversee financial institutions, but behind the cheers are concerns whether the step may be largely symbolic.

Offices would be established in financial regulatory agencies to "ensure equal employment opportunity and the racial, ethnic and gender diversity" of the agency's work force and senior management. The offices also would push to increase each agency's contracting with minority-and-women-owned businesses.

In addition, the offices will "develop standards to assess the diversity policies and practices of regulated entities," mainly private-sector financial-services firms, "but they will not have any authority over regulated institutions," said Rep. Maxine Waters, D-Calif., the diversity measure's chief advocate.

Nor could the offices get involved in lending decisions.

Supporters acknowledge that the question of clout remains an open one.

"This is absolutely necessary," said National Urban League President Marc Morial. "We haven't overcome; the evidence shows we haven't overcome discrimination or the need to promote diversity or inclusion."

However, he added, "we have to make sure this agency has teeth." He said he can't be sure until he's seen the final legislation.

Negotiators from the House of Representatives and the Senate have agreed on the language, but the final bill is still being written and congressional approval is still needed.

Under the proposal, each contractor that does business with an agency would have to sign a written assurance stating that it will provide for the fair inclusion of minorities and women to the maximum extent possible.

If the office finds that it hasn't done that, it can recommend that the contract be terminated. The agency administrator could then cancel the contract, refer it to the Labor Department or take other action.

Critics say the offices would create precisely the kind of trouble that the legislation aims to prevent — the ability of regulators to move quickly. They worry that it would exert new pressure on the private sector, despite emphatic assurances from Waters and Democratic leaders that it won't.

"Under the Waters provision, financial regulators will be required to 'assess the diversity policies' of every single institution they oversee, including every credit union and community bank," said Rep. Ed Royce, R-Calif.

The new offices, he said, "will again lead to regulators shifting their focus away from systemic risks and safety and soundness. This time it will be toward racial and gender lending when inspecting the institutions they oversee."

However, the offices would have no say over lending.

Among agencies affected by the legislation would be the Treasury Department, Federal Deposit Insurance Corporation, Federal Housing Finance Agency, Securities and Exchange Commission and each Federal Reserve bank.

"We've got to change the culture," said Rep. Elijah Cummings, D-Md.

Mark Calabria, the director of financial regulation studies at the Cato Institute, a libertarian research group, said the plan is "is essentially an affirmative action program for the financial industry," he said. "There's not an explicit quota system, but it's headed in that direction."

The proposed office isn't needed, he said, because legal mechanisms already exist to address discrimination: lawsuits and the Equal Employment Opportunity Commission.

Democratic lawmakers insist that data show the need for more government pressure to be exerted on both the public and private sectors. Minorities make up only 17 percent of senior pay levels at the Treasury Department, for example, Waters contended.

A May report from the nonpartisan Government Accountability Office, Congress' investigative arm, found that "overall diversity at the management level in the financial services industry did not change substantially from 1993 through 2008."

In addition, it found "diversity in senior positions remains limited."

It acknowledged that financial services companies and trade groups have tried hard to increase diversity, notably by establishing scholarship and internship programs and partnering with groups representing minority professionals.

However, the GAO found, those efforts "face challenges," such as minorities aren't well represented in graduate business programs, and that mid-and-lower-level minority employees "might lack the personal connections and access to informal networks that are often necessary to navigate an organization's culture and advance their careers."

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