Access to Credit in African American Communities: The Case for the Development of Black Owned Banks and Financial Institutions

Anthony W. Ricks
Consumer Financial Protection Bureau (CFPB)
April 16, 2018

Table of Contents

Executive Summary……………………………………………………………………….Page 2

Part I
How Did We Get Here?
Lack of Access to Credit and Ineffective Government Policies Equals Poor Economic Conditions in African American Communities…………………………………………………………...Page 4

Part II
History of Black Owned Banks and Governmental Efforts towards Their Success

Under the most difficult circumstances…………………………………………………Page 7
Efforts by the Federal Government in Support of Black owned Banks………………...Page 11

Part III
Current Challenges for Black Owned Banks

Concerns Unique to Black Owned Banks……………………………………………….Page 15
Typical Community Bank Concerns…………………………………………………….Page 17

Part IV
So What Do We Do Now………………………………………………………………….Page 19

Part V
Conclusion………………………………………………………………………………Page 22

Bibliography…………………………………………………………………………….Page 24

EXECUTIVE SUMMARY

The Consumer Financial Protection Bureau (CFPB) has responsibility for supervision and enforcement of the Equal Credit Opportunity Act (ECOA) as implemented by Regulation B. The purpose of the ECOA is to ensure that financial institutions provide credit in a nondiscriminatory manner to individual applicants and subsequent borrowers. ECOA also prohibits institutions from excluding or limiting its lending activity in markets or segments of its footprint that consist largely of African Americans, or other words redlining. When institutions redline these communities the residents have limited accesses to credit, which often leads to the area's economic stagnation and eventual decline. In cases where the CFPB, the Department of Justice or the other prudential banking regulatory agencies-the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System or the Federal Deposit Insurance Corporation (FDIC)-determines that an institution has redlined an area in violation of ECOA these agencies may impose penalties and require the institution to undertake certain measures to address the harm. The CFPB's and the other Federal regulatory agencies' authority for remediating the harm is potent[1]; however these measures may provide only a limited and sometime temporary relief to the victims. In this project I will propose that a longer lasting solution to ensuring that these negligent areas have adequate access to capital and credit is through the development and use of black owned/managed financial institutions[2]. The project

---

[1] Federal regulatory agencies can impose fines, civil money penalties and require banks to provide remediation to individuals and groups where there is a determination that the entity has violated the ECOA. In addition, a bank may experience tremendous reputational risks in the cases where they have violated the ECOA (see news releases on Ally bank for auto lending and Midwest Bank Centre and Chase for major violates of the ECOA in their mortgage lending.

[2] This paper could have been written to cover all "minority owned banks". However, in my research I determined that all minority owned banks do not have share a similar history, financial performance or challenges. As such I do not think I could conduct a true analysis as there is not a one size fits all approach to running and managing a minority owned bank. In addition, I have a particular interest in black owned banks as I plan to one day be involved In addressing and solving the unique challenges present to members of the African American community that

will describe the extent of the problem that the lack of credit has caused certain communities and the regulatory actions taken to address violations of ECOA. The vast majority of the project however will focus on the need for the development of black owned financial institutions. I will provide a review of the history of black owned financial institutions and the challenges these institutions currently face. I will discuss the performance of black banks using data compiled from the FDIC call reports and analysis conducted by third parties. After considerations of the challenges black owned banks face, I propose as a possible avenue to address these challenges the creation of a credit union to meet the needs African American customers who are unbanked or underbanked. To better meet the needs of small businesses located in these communities I propose the creation of community development corporations that strategically leverage the various financial programs created by the Federal government to address the needs of small businesses that reside in these markets.

undertake running a bank that serves the needs of the African American community. Given these factors my project is targeted to black owned banks.

Part 1
How Did We Get Here?
Lack of Access to Credit and Ineffective Government Policies Equals Poor Economic Conditions in African American Communities

There is a plethora of literature that speaks to the many economic challenges that African American communities continually face. Most scholars, civil rights activists, policy makers and social commentators can trace these problems to historic racism and discrimination. Currently African American neighborhoods and communities face higher levels of unemployment/underemployment, higher incarceration rates and lower educational achievement. Over the last ten years the black unemployment rate ranged from a high of 16.85 percent in March 2010 to a low of 6.5 percent in March 2018. By contrast, the white unemployment rate for March 2010 was 8.9 percent and 3.6 percent in March 2010. For 2017 the average overall unemployment rate was 4.9 percent but for blacks the rate was 8.4 percent.[3] Higher unemployment rates among African Americans lead to higher poverty rates. For 2017 the overall poverty rate for the country was 12.7 percent, but there was a stark difference in the poverty rates for whites (8.8 percent) relative to that for blacks (22.0 percent).[4] With such high levels of unemployment and poverty rates African Americans also have lower rates of participation in "standard" products and services offered by traditional depository institutions.

[3] Data gathered from the Bureau of Labor Statistics
[4] US Census Data

Table 1
Banking Status of Americans

Customer	**# of HH**	**Percent of HH**	**Percent Unbanked**	**Percent Underbanked**	**Percent Fully Banked**	**Banking Status Unknown (Percent)**
All	123,750	100	7.7	20.0	67.0	5.3
Household Type						
Married couple	59,102	100	3.4	17.7	73.9	5.0
Unmarried female-headed family	15,802	100	18.4	29.2	47.5	4.9
Unmarried male-headed family	6,327	100	13.2	28.3	53.7	4.8
Female individual	22,150	100	7.4	17.2	69.4	6.0
Male individual	20,240	100	10.7	20.0	63.7	5.7
Other	128	100	16.3	17.5	58.6	7.6
Race/Ethnicity						
Black	**16,801**	**100**	**20.5**	**33.1**	**40.0**	**6.3**
Hispanic	14,948	100	17.9	28.5	48.4	5.1
Asian	5,882	100	2.2	17.9	73.4	6.6
American Indian/Alaskan	1,464	100	16.9	25.5	53.0	4.6
Hawaiian/Pacific Islander	314	100	6.1	25.1	64.5	4.2
White non-Black non-Hispanic	84,310	100	3.6	15.9	75.4	5.0

As the table above indicates, African Americans have the highest percentage of unbanked (20.5 percent) and underbanked (33.1 percent) than any other racial or ethnic group. Likewise, African Americans have the lowest percentage of fully banked individuals (40.0 percent) relative to other racial or ethnic groups.[5] These economic conditions have caused many depository institutions to conclude, albeit shortsightedly, African American communities are not good places to seek out deposits and loan products and services. Larger banks typically have limited branches open in those communities. As a result of the neglect of traditional depository

[5] 2015 FDIC National Survey of Unbanked and Underbanked Households

institutions in these communities, residents find themselves utilizing products and services from other financial intermediaries such as title loan and payday lenders, check cashing services and rent-to-own businesses. These alternative providers of financial products and services typically charge higher fees and offer terms that are more onerous than those of traditional depository institutions. Given the effects of all of these factors, African Americans find themselves with even less opportunities to increase their wealth. It should be noted that even majority black middle income census tracts also experience a similar limited opportunities to receive products and services from traditional depository institutions[6].

The Federal government has made efforts to address this disparity in the availability of banking based on ethnicity. The most noted effort was the enactment of the Community Reinvestment Act (CRA). Under the CRA, banks are assessed on their efforts to serve low and moderate income census tracts. While CRA does not directly address racial discrimination, there is however a correlation between race and income in this country. Census tracts that have a majority black population more likely to also be low or moderate income tracts. Given this correlation, CRA indirectly also address racial disparity. If an institution is deemed unsatisfactory in its delivery of products and services in low and moderate income census tracts the regulatory agencies may prohibit them from open new branches, offering new products or merging or acquiring another bank. The findings for each bank under the CRA are made available to the public through the regulatory agencies publication of the bank's Public Evaluation. Institutions try and stay away from receiving a Public Evaluation with an unsatisfactory rating. However, even with the CRA oftentimes banks have a way to provide just

[6] Ibid 5

enough goods and services to these communities to meet minimum requirements to avoid the harshest penalties.

Part II
History of Black Owned Banks and Governmental Efforts to Ensure Their Success

Under the most difficult circumstances

The economic hardships that the African Americans community is facing are not new. This has been a persistent problem and African Americans have been addressing these concerns for years with determination and independence by seeking to control their own destiny by creating their own banks and financial institutions. There is no official record to verify when the first black owned bank was started. There were many informal and ad hoc cooperatives and associations amongst African Americans where they pooled their resources and loaned money to each other. However, one of the first known black owned blacks was the Freedman's Saving Bank ("FSB"). The FSB was actually created by Congress in 1865 as a vehicle for the safekeeping of freed slaves and black soldiers pay. The FSB was based on the model of savings banks on the East Coast. Savings banks were to a large degree charitable organizations whose mission was to teach "working men the lessons of thrift, industry and care for the future". [7] From its initial onset FSB experience a significant amount of success. During the period of 1865 to 1874 FSB handled $75 million ($41.5 billion in 2018 dollars) from 75,000 depositors. By 1871 FSB was operating 35 branches located mainly throughout the South. After years of growth, FSB ventured away from its mission and began to take on more speculative loans and investments at the behest of its Finance Chairman Henry Cooke. Henry Cooke was the brother of the highly

[7] The Color of Money: Black Bank and the Racial Wealth Gap, by Mehrsa Baradaran, The Belknap Press of Harvard University Press, 2017, page 24

respected banker Jay Cooke of the investment bank, the First National Bank in Washington. By June of 1874 FSB had succumbed to heavy losses in investments due largely to poor management and Congress authorized the closure of FSB, leaving 61,131 depositors without access to over $3 million in their deposits. The Congressional Act that created FSB did not provide for oversight by the OCC or any other Federal or state regulatory agency. Also this closure predated the FDIC consequently there was no deposit insurance to cover the lost deposits.[8]

Shortly after the FSB failure many African Americans still sought to achieve their financial independence and open several other banks. Some of the first noted privately owned black banks were the Capital Savings Bank (opened in Washington DC in 1888) and the Alabama Penny Savings and Loan Company (opened in Birmingham Alabama in 1890). Both Capital and Alabama Penny offered mortgages to customers but they also undertook business and commercial lending. Their commercial clients were primarily black churches, black professionals and businessmen. These banks saw years of success but ultimately faltered, as did many white owned banks, during the Panic of 1893.

The period of 1910-1930 saw the first wave of many African Americans leaving the South for the North under the Great Migration for better economic and educational opportunities. With that migration black banking reached a pinnacle[9]. Several black owned banks were started in Chicago, Detroit, Washington DC and Philadelphia. Another indication of black economic

[8] "The Freedman's Savings Bank: Good Intentions Were Not Enough; A Noble Experiment Goes Awry" Jesse Stiller, OCC Historian, The Office of the Comptroller of the Currency
[9] The Negro as Capitalist: A Study of Banking and Business Among American Negros, by Abram L. Harris, Philadelphia: American Academy of Political and Social Science, 1936

growth during this period the National Negro Bankers Association was formed in 1927.[10] Over 130 black owned banks were started during the period of 1900-1930. This is in addition to the over 50 savings and loans and credit unions that were started by blacks during this period. The peak year for black owned banks was in 1926 when total assets of all black banks were $13 million.[11]

Of the black owned banks started during this period, Binga State Bank, chartered in 1907 in Chicago, garnered national attention for it business strategy and success. Binga State Bank was started by African American businessman Jesse Binga. Binga was a prominent real estate developer who profited by buying houses from whites at a reduced price who were moving to other areas of the City of Chicago as African Americans moved in. Binga would in turn sell or rent the homes to African Americans who moved to Chicago during the Great Migration. Binga brought the charter of a failed white bank and began offering loans to African Americans to purchase real estate and to start businesses. Binga State Bank's deposits grew from $300,000 to over a $1 million between 1921 and 1924.[12] Binga State Bank also became a member of the Chicago Clearinghouse. The Clearinghouse was set up for banks (regardless of the racial makeup of the owners) as a funding source in the event a bank needed liquidity. Binga Sate Bank was very successful in Chicago until the stock market crash of 1929. The crash resulted in massive unemployment, which was even more pronounced in Chicago's African American neighbors. The Depression and the loss of jobs were extremely difficult for Binga Sate Bank as it had $800,000 in home mortgages defaults on its books. This helped to create a severe liquidity crisis for the Bank. Binga State Bank sought assistance from the Clearinghouse however the

[10] The Color of Money page 84
[11] The Color of Money, page 76 and 83
[12] The Color of Money, page73

Clearinghouse refused to provide Binga Sate Bank with a loan. Unable to meet its liquidly shortcoming, Binga State Bank failed on July 30, 1930. In fact, after the Great Depression there were only eight (8) black owned banks that survived.[13]

After the country came out of the Great Depression more black owned banks were started during the period 1940-1970. During that timeframe, dozens of banks were started by African Americans throughout the country, all arising out of the need to provide financial resources to the black community that were not being meet from the long standing white establishment. These banks have thrived and struggled to maintain open. As discussed in more detail below in the Section entitled Current Challenges for Black Owned Banks, black owned banks face the challenges of limited access to a higher net worth customer base, restrictions from participation in larger commercial credits, availability to highly trained managerial and knowledgeable and costs for regulatory compliance and technological changes. These challenges have caused the number of black owned banks to continue to dwindle. Currently there are 22 black owned banks still in existence. Table 2 gives the name, the date of inception and total assets for each black owned bank currently in operation.

[13] The Color of Money, page 86

Table 2
Black Owned Banks
As of December 2016

NAME	CITY	STATE	Est. Date	Total Assets ($000)
ALAMERICA BANK	BIRMINGHAM	AL	20000128	35,328
COMMONWEALTH NATIONAL BANK	MOBILE	AL	19760219	49,485
CARVER STATE BANK	SAVANNAH	GA	19270101	42,077
CITIZENS TRUST BANK	ATLANTA	GA	19210618	428,579
MECHANICS&FARMERS BANK	DURHAM	NC	19080301	254,776
SOUTH CAROLINA CMTY BANK	COLUMBIA	SC	19990326	52,586
ILLINOIS-SERVICE FS&LA	CHICAGO	IL	19340101	133,096
URBAN PARTNERSHIP BANK	CHICAGO	IL	20100819	472,317
METRO BANK	LOUISVILLE	KY	19970106	27,998
FIRST INDEPENDENCE BANK	DETROIT	MI	19700514	286,561
COLUMBIA SAVINGS&LOAN ASSN	MILWAUKEE	WI	19240101	23,973
LIBERTY BANK&TRUST CO	NEW ORLEANS	LA	19721116	605,490
CITIZENS SAVINGS B&T CO	NASHVILLE	TN	19040104	107,165
TRI-STATE BANK OF MEMPHIS	MEMPHIS	TN	19461216	86,651
UNITY NB OF HOUSTON	HOUSTON	TX	19850801	96,010
INDUSTRIAL BANK	WASHINGTON	DC	19340818	423,202
ONEUNITED BANK	BOSTON	MA	19820802	658,014
HARBOR BANK OF MARYLAND	BALTIMORE	MD	19820913	266,288
CITY NB OF NEW JERSEY	NEWARK	NJ	19730611	213,858
CARVER FEDERAL SAVINGS BANK	NEW YORK	NY	19480101	657,349
UNITED BANK OF PHILADELPHIA	PHILADELPHIA	PA	19920323	59,009
BROADWAY FEDERAL BANK FSB	LOS ANGELES	CA	19470226	411,638
Total			**Count 22**	**$5,391,450**

Efforts by the Federal government in support of black owned banks

The Federal government has played a role in advancing the success of black owned banks. The Federal government's first major effort was enactment of the Minority Bank Deposit Program

(MBDP). The MBDP was created by President Nixon in 1969 in response to Executive Order 11458 (March 5, 1969), which established a national program supporting minority business enterprise. The MBDP is created under the pretense of "black capitalism". Under the MBDP, the Federal government agencies were encouraged to make deposits in black owned banks. The program focused on providing deposits to black owned banks with the theory that these deposits would be a source of funding for these banks to make loans. The initial goal was to encourage Federal agencies to deposit $100 million of their accounts in black owned banks. The MBDP was given a further boost by President Jimmy Carter in his Minority Bank Deposit Program Memorandum for the Heads of Departments and Agencies, dated April 8, 1977. President Carter's Memorandum reaffirmed the goal of $100 million to be deposited in minority banks, but President Carter set a deadline for this goal to be accomplished, December 1977. [14] This potential source of funding never materialized. The MBDP had very limited success with only $35 million deposited in black owned banks[15]. Officials from black owned banks attributed the limited success of the program to a lack of sincerity in the government's commitment to the program and burdensome red tape. Another shortcoming of the MBDP was its focus on deposits. Deposits are only one half of the equation for banking, with the other half being loans. The MBDP did not address loans at all. Also, many black bankers stated their desire to gain a share and participation in larger national commercial credits with non-minority banks. Others also petitioned the government asking for technical assistance to deal with the increasing complicated and changing technological and regulatory environment.[16] In response to these concerns Congress passed the Financial Institutions Reform, Recovery, and Enforcement Act of

[14] Minority Bank Deposit Program Memorandum for the Heads of Departments and Agencies, April 8, 1977. Online by Gerhard Peters and John T. Woodley, the American Presidency Project

[15] The Color of Money page 185

1989 ("FIRREA"). Under FIRREA each of the regulatory agencies (Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the Federal Reserve Banks) were required to create offices to address these concerns and provide assistance to increase the viability and growth of minority owned banks. Section 308 of FIRREA established the following goals:

- preserve the number of minority depository institutions;
- preserve the minority character in cases of merger or acquisition;
- provide technical assistance to prevent insolvency of institutions not now insolvent;
- promote and encourage creation of new minority depository institutions; and
- provide training, technical assistance, and educational programs

In response to FIRREA, each agency established an Office of Minority Banks and hired liaisons to work specifically with minority owned banks. The agencies also began reporting out on its efforts to help minority banks. Most notably, the Board of Governors of the Federal Reserve Bank launched its Partnership for Progress in 2008. The Federal government's most recent effort to address the challenges of minority owned banks was Section 367 of the Dodd-Frank Act of 2010 Dodd-Frank). Section 367 of Dodd-Frank amended FIRREA to require the supervisory agencies to submit an annual report to the Congress containing a description of the actions they have taken to carry out the requirements of section 308 of FIRREA. A big component of section 367 of the Dodd-Frank Act calls for the Secretary of the Treasury to consult with the Chairman of the BOG, the Comptroller of the OCC, the Chairman of the NCUA and the Chairperson of the FDIC on developing methods to preserve and increase the number of minority owned banks and provide technical assistance to prevent their insolvency.

The Office of Minority Banks and Section 367 have been in place for over ten years, the effectiveness of these measures appears at best to be minimal. As an attendee of one of these conferences I recall overhearing an African American banker stating: "These meetings and conferences are a waste of time. I go to this every year and nothing is said or done that will help me to improve my bank's performance. I need regulatory relief and the ability to get a share of a loan on a credit to a very large multinational business".[17]

The most recent effort by Congress to address the concerns of minority owned banks was a bill introduced by Representative Gregory Meeks (HR 3741), Bill to Support Minority Owned Banks and Increase Access to Affordable Financial Services. The Meeks bill was introduced in September 2017 but has not yet been taken up by the House Financial Services Committee. The Bill strengthens the MBDP by requiring the head of each Federal department or agency to develop and implement standards and procedures to ensure, to the maximum extent possible as permitted by law, the use of minority banks, women's banks, and low-income credit unions to serve the financial needs of each such department or agency. The Bill also requires that each Federal department or agency to report to Congress their use of minority banks, women's banks, and low-income credit unions. Finally the Bill would amend the Community Reinvestment Act to allow the Federal regulatory agencies to give banks credit under the investment test for making capital infusions into minority banks, women's banks, and low-income credit unions.

[17] Quote from an unnamed African American banker at the 2008 Interagency Minority Depository Institutions National Conference.

Part III
Current Challenges for Black Owned Banks

As provided in Table I, there are currently 22 black owned banks currently operating in the United States. These banks have experienced varying degrees of success and growth. But there are several reoccurring challenges and concerns they each commonly share. Some of these concerns are typical for all community banks regardless of the ethnicity of the bank, but in addition to these concerns black owned banks have additional challenges that are ever present given their purpose and mission. These are concerns are detailed below.

Concerns Unique to Black Owned Banks

Table 3

Financial Performance of Black Owned Banks (As of December 31, 2016[18])

Asset Size	**All**	**Under $100M**	**Over $100M**
Peer Group Information			
Number of Banks in Peer Group	24	9	15
Earnings and Profitability: Percent of Average Assets			
Noninterest Income	1.09	1.24	1.28
Noninterest Expense	5.22	5.53	5.25
Provision: Loan & Lease Losses	0.13	0.28	0.17
Realized Gains/Losses Sec	0.03	0.02	0.04
Net Operating Income	-0.54	-0.71	-0.78
Net Income	-0.55	-0.71	-0.80

[18] The information for this Table was obtained through the Federal Reserve System Partnership for Progress program. The latest comparison was for 2016. Data for 2017 has not yet been analyzed, however the trend for the performance for the banks in this analysis has been consistent over the years; consequently data for 2016 would be adequate for this paper.

Margin Analysis			
Avg Earning Assets to Avg Assets	91.27	88.54	92.48
Net Int Inc-TE to Avg Earning Assets	3.84	4.26	3.59
Loan & Lease Analysis			
Net Loss to Average Total LN & LS	0.63	0.65	0.83
LN & LS Allowance to Total LN & LS	1.64	1.65	1.76
Noncurrent Loans to Total Loans	4.33	7.21	3.43
Liquidity			
Net Noncore Fund Dependence	7.51	5.21	6.80
Net Loans & Leases to Assets	64.66	63.11	65.39
Capitalization			
Tier One Leverage Capital	8.49	9.68	7.65
Tier One RBC to Risk-Weight Assets	12.74	14.81	11.55
Total RBC to Risk-Weight Assets	13.95	15.99	12.77
Cash Dividends to Net Income	32.05	0.00	48.01
Growth Rates			
Total Assets	-2.90	-4.41	-1.51
Tier One Capital	-6.39	-4.73	-2.39
Net Loans & Leases	1.15	-1.12	3.25

In a review of Table 3 there are a few things that immediately stand out. First, these banks have a negative Net Operating Income and a loss for Net Income. They also have a decrease in their total assets and a negative capital position. These numbers are clearly indicative of the challenges these banks face. The funding source for these banks consists primarily of a limited number of churches and governmental agencies. These banks do not have privy to the larger corporations who have larger sums to keep in a bank. These banks also face a dynamic in its pursuit of its traditional wealthy customer base. In the past black owned banks were able to obtain the accounts of wealthier blacks who were denied services at larger banks. However over the last 40 years larger banks have initiated aggressive marketing efforts at wealthier black customers and businesses. Further, these institutions were able to offer a diverse product and services that meet the needs of these customers. When these customers left the black owned banks they took with them larger deposits and higher quality loans.[19] To some degree black owned banks were very slow to respond to the flight of these customers. Finally, these banks suffer from inadequate levels of capitalizations. This is very problematic for black owned banks as there are an extremely limited number of investors who have expressed an interest/desire in investing in black owned banks.

Typical Community Bank Concerns

Perhaps the most notable challenges that all community banks face are the costs associated with compliance with state and Federal regulations, access to trained staff and experienced management and costs for keeping up with technology. The Dodd-Frank Act have place additional regulatory requirements on all banks. In order to maintain compliance with these rules and regulations banks will have to hire additional staff, incur higher consulting and auditing fees as well as purchase and maintain software. Studies vary as to how much these costs are for a typical community bank, but in my job as a consumer compliance examiner I have noted a substantial increase in the amount that banks are paying for these costs. Black owned banks are

[19] "Minority-Owned Banks and Their Primary Local Market Areas" by Maude Toussaint-Comeau and Robin Newberger, Economic Perspectives publication by Chicago Federal Bank Study October 2017

already operating with very thin profit margins, so as these costs continue to increase these banks will face even smaller margins.

Additional studies have shown that black owned banks also struggle with other typical concerns prevalent to all community banks, but with heighted intensity. These common traits and risk exposures include[20]:

- Lack of management and board oversight and failure to control risk
- Commercial real estate concentrations, particularly construction and land development projects
- Inadequate loan policies and insufficient loan-loss reserves
- Material deficiencies and weaknesses in internal controls (increasing vulnerability to fraud)
- Overreliance on noncore funding, particularly brokered deposits

A prime example of these concerns can be seen in Carver Federal Savings Bank in New York. Carver's net loss for 2016 was $2.9 million due primarily from lower revenue from interest and fees. Carver also had a concentration in commercial real estate. These loans were good for Craver as they yielded higher fees. However over the last year some of these loans have left the bank or are no longer performing. Carver saw its commercial real estate loan book value drop from 48% of its total loans in 2015 to 45% by the end of 2016. Carver Bank also has to deal with a decline in the income status of its customer base.

[20] The Changing Face of Communities Served By Minority Depository Institutions: 2001-2015 by Russell D. Kashian, Fernada Contreras and Claudia Perez-Valdez, The University of Wisconsin-Whitewater

Part IV
So What Do We Do Now

The premise of this project is that there is a need for credit in African American communities, but there are often a small number of depository institutions available to the community. Regulatory agencies have had limited ability in achieving a sustained effort to hold depositories institutions to adhere to the law. The obvious solution to these problems is to create financial institutions that have as a mission to care about the African American community. But as discussed above there are challenges with creating and sustaining financial institutions that serve the needs of the community. The deposit base is smaller and larger and more profitable loans are not readily available. Investors to help in capitalization are limited and then there are the normal costs of doing business for all community banks which are even more pronounced for black owned banks. **So what should we do now?** The first and most obvious step is for African Americans (as well as other groups) to increase their support of existing black owned banks. That has been the case over the last two years there has been a call from African American leaders, scholars and celebrities encouraging people to open deposits and take out loans from black owned banks. Through this effort black owned banks have seen an increase in their deposits. Citizens Bank and Trust in Atlanta stated that they received 8,000 new accounts in 2017 as a result of this movement[21]. With a sustained level of obtaining deposits, these existing banks will have more funds to loan which in term will help foster job creation within those communities.

But what about cities that do not have black owned banks, how can those communities be better served? What possible strategies would work to meet their needs? Based on my research I

[21] Ebony Magazine June 2016

would not suggest starting a bank to serve the African American communities. The competition for qualified to well-qualified African Americans is very intense as majority owned banks have already penetrated that market. Also, startup costs, primarily the ability to get capital and investors, are virtually insurmountable. Given these circumstances it may be more feasible to start a credit union than a bank.[22] Credit unions do not have the capital requirements of banks; therefore finding investors is not as much of a problem. Further, credit unions can be started by and ran out of churches and other community groups; as a result they typically have lower overhead costs. This in turns gives the credit union the ability to offer products such as deposits accounts with lower minimum balances and lower fees. These products would be more advantageous for customers in these communities.

By going the route of a credit union, the organizers can tap into the numerous support groups and service providers who are able to assist in the startup of a credit union. Most notably, the Federal government created the Community Development Financial Institutions Program (CDFI Program) to assist in the creation of financial institutions to serve the needs of low and moderate income individuals. Under this program, the credit union that is started should immediately seek certification as a community development financial institution. By doing so the credit union would be able to receive financial and technical assistance from the CDFI Program. The CDFI Program has a bond fund from which the credit union could obtain funds that can be used for capital, loan loss reserve or the acquisition of technology. It would also be most effective if the

[22] At this time I feel that it is important for me to acknowledge the American Bankers Association and community banks' stance on credit unions. There is a major debate regarding the tax-exempt status of credit union and how that gives them an advantage over banks. My advocating that credit unions are a plausible solution to meet the needs of underserved communities should not be taken as an endorsement of credit unions over community banks. The writer just believes that given the unique challenges that these communities face credit unions serve as a viable option.

credit union team up with a large church or community group as these organizations would serve as sources to legitimize the credit union as well serve as a source for potential member and provider of in-kind services and facilities.

The credit union would be able to meet the needs of consumers seeking fair and practical deposits and loans products that are offered on more favorable terms. The credit union however would not be in a position to adequately meet the needs of commercial and business customers. Credit unions have regulatory restrictions on the types of loans it can make to businesses. However there needs to be another type of financial institution to meet the needs of commercial customers in these communities. The most practical solution would be a CDFI loan fund. CDFI loan fund is a non-depository financial institution that is generally not subject to Federal banking regulations. As such, compliance with banking regulations would be avoided.[23] The CDFI loan fund would have more flexible lending policies than regulated CDFI banks and traditional banks. CFDI loan fund would manage its risk by providing multiple layers of financing, guarantees, matched funds, peer lending, pooled risk, borrower education, and ongoing technical assistance. This allows the CDFI loan fund the ability to finance development projects more easily than many other lenders. Another component of a CDFI loan fund is that it has a very rigorous and intensive financial education and counseling to its business borrowers. This is done in an effort to help the business owner get through tight spots and to serve as a source of motivation and mentorship.

[23] The organizers would still have to comply with the CDFI Act and its regulations. These regulations are however arguable not as stringent as banking laws.

The proposed CDFI loan fund would be organized as a stand-alone non-profit organization (it could be affiliated with the church or community organization that starts the credit union) and would work with other nonprofit organizations, and in partnership with traditional banks and banks that have received status as a CDFI. By working with another bank, the traditional bank would be given the opportunity to participate in loans that may not meet their underwriting requirements. In this case the bank may also receive credit under the CRA for participation in these loans. Another added benefit under the program is that a CDFI loan fund may take a subordinate position when lending in partnership with traditional banks. This arrangement would help borrowers who may be very close to getting a loan from a bank but needs a little extra help to get the loan approved. The CDFI loan fund could also raise equity from government funding, social investments, and philanthropic groups. Further, the CDFI loan fund could specialize in financing certain types of borrowers, including affordable housing, community service providers or other businesses that would meet the needs of the community.

An additional advantage to using a CDFI loan fund is the ability to leverage off of the New Market Tax Credit Program (NMTC Program) which is also offered through the CFFI Program. The NMTC Program seeks to attract private capital into low-income communities by permitting individual and corporate investors to receive a tax credit against their federal income tax in exchange for making Qualified Equity Investments (QEIs) in CDFI Loan Funds. The credit totals 39 percent of the original investment amount and is claimed over a period of seven years. Under this arrangement, the QEI provides the funding for the CDFI Loan Fund to lend to borrowers in low income (and often African American) communities. The NMTC program has been a vital and successful government program to address the vacuum of funding for financial intermediaries that serve low income areas.

Part V
Conclusion

A great deal is written about the economic challenges that the African American community currently faces. There are well established historical facts that can explain the current condition of the community. But the community always has had the desire to do better and to get better, no matter the obstacles. This has been the history of the African American community sense our beginnings in this country. The African American community has exercised capitalism in its truest forms by the creation of their own banks, many of which were started during the worst of the Jim Crow era and rampant and legalized discrimination. These efforts were successful and must now be duplicated to best address the community's current problems. In order to be effective in this endeavor there must be a clever use of capitalism combined with the various governmental programs such as the CDFI programs and the New Market Tax Credit program which are aimed at reducing poverty and spurring economic development. The writer truly believes that a combination of a credit union and a CDFI loan fund can begin to address the most urgent needs of the community. Through this form of government and business cooperation we can begin to change what is quickly becoming a frightening narrative for the African American community.

Bibliography

Books

Baradaran, Mehrsa, *The Color of Money: Black Bank and the Racial Wealth Gap*, The Belknap Press of Harvard University Press, 2017

Toussaint-Comeau, Maude and Robin Newberger *Minority-Owned Banks and Their Primary Local Market Areas*, Economic Perspectives publication by Chicago Federal Bank Study October 2017

Greer James L., Oscar Gonzales *Community Economic Development in the United States*, Palgrave Macmillian, 2017

Harris, L. Abram, *The Negro as Capitalist: A Study of Banking and Business Among American Negros*, Philadelphia: American Academy of Political and Social Science, 1936

Jesse Stiller, OCC Historian, *The Freedman's Savings Bank: Good Intentions Were Not Enough; A Noble Experiment Goes Awry*", The Office of the Comptroller of the Currency 1987

Kashian, Russell D., Fernada Contreras and Claudia Perez-Valdez, *The Changing Face of Communities Served By Minority Depository Institutions: 2001-2015*, The University of Wisconsin-Whitewater 2017

The Internet

Partnership for Progress, *Data on Black Banks*, Federal Reserve System

Peters, Gerhard and John T. Woodley *Minority Bank Deposit Program Memorandum for the Heads of Departments and Agencies*, April 8, 1977. Online by, the American Presidency Project