



Boosting the Technological Infrastructure of Black Minority Depository Institutions Is Critical

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Black depository institutions, both credit unions and banks, have long served communities, organizations, and individuals of color and have sought to help them build wealth through vehicles such as homeownership and small business ownership. But these Black institutions are less likely than their minority institution peers or nonminority institutions to offer online and mobile banking services, a key factor that limits their reach. The disproportionate lack of types of digital banking service offerings by Black depository institutions is glaring, as it takes place against the proliferation of digital banking across the financial services sector more broadly. By improving their technological apparatus, Black depository institutions can more efficiently grow and expand services to communities of color.

In this brief, we size and compare the Black financial institution population, demonstrating that Black banks are critical because of their relative average size, as measured by assets. Black credit unions account for 361 of the 381 Black federally insured depository institutions operating at the end of the third quarter of 2022. Amid discussions about the technological deficits of minority depository institutions, we quantify the proportion of Black credit unions, as a proxy for Black depository institutions overall, that do not offer key digital banking services and show that significantly fewer of them offer these types of services.

To fill this technological need, several private-sector and philanthropic organizations have committed financial investment and professional expertise toward closing this gap, and federal policy has provided additional support. Through its first round of funding, the US Department of the Treasury invested \$9 billion in community development financial institutions and minority depository institutions through the Emergency Capital Investment Program.¹ Additional organizations can join this effort by investing in Black minority depository institutions to ensure the benefits these institutions offer for communities of color continue long term. Technical assistance by technology and financial services firms to ensure the integration, accuracy, and monitoring of such systems, combined with assistance

from community leaders to understand the implications for the neighborhoods they serve, must also continue to help these institutions and communities understand the risks of greater technological use as digital banking expands and evolves.

Black Depository Institutions Expand Credit Access to Communities of Color

Through their broad mission, Black depository institutions expand access and boost wealth-building investments for communities and institutions of color, with a particular focus on low-income areas (Todd 2019).² Research indicates that in 2016, most mortgages from Black banks went to Black borrowers.³ In addition, as the country emerged from the Great Recession, Black banks increased mortgage lending to Black borrowers at a time when credit standards were very tight.

In addition, Black depository institutions support small businesses.⁴ Analysis indicates that their on-portfolio small business loans as a share of deposits was double the 4 percent held across non-community banks. Although, this exceeded the non-community bank share and suggests a greater proportion of small business lending, Black banks held a lower share of small business loans on their balance sheets: 10 percent versus 8 percent (Theodos, González-Hermoso, and Myczkowska 2022, 8).

Black depository institutions, like many other minority and community depository institutions, are able to expand credit access through the use of relationship banking.⁵ This banking model focuses on customers' individualized needs and concerns, where depository institutions go beyond standard borrower metrics by working with borrowers to come up with solutions and services that fit their condition. This kind of banking is critical for expanding access to credit in communities of color.

Data

This analysis largely relies on call report data from the third quarter of 2022, specifically data reported by credit unions to the National Credit Union Administration (NCUA).⁶ The financial data reported by credit unions in this brief are sourced from the 5300 Call Report, while the digital banking data are sourced from Profile Form 4501A (NCUA 2022).⁷ Both sources are required to be up to date every quarter.

The analysis incorporates call report data from the third quarter of 2022 on bank depository institutions accessed from the Federal Deposit Insurance Corporation (FDIC).⁸ Bank call reports cover the condition, performance, and risk profile of individual institutions. Each institution regulated by the FDIC is required to submit this information each quarter.

This brief also uses data from five-year American Community Survey estimates covering the years 2016 to 2020.⁹ The American Community Survey is an ongoing survey that provides data every year, covering a broad range of topics about social, economic, demographic, and housing characteristics of

the US population. The five-year estimates from the American Community Survey are estimates that represent data collected over several years.

Black Depository Institutions Are Small

Using data covering both the NCUA and the FDIC, we count 9,559 federally insured depository institutions at the end of the third quarter of 2022. The total number of depository institutions was approximately evenly distributed among credit unions (4,813) and bank depository institutions (4,746).¹⁰

In aggregate, assets held across all these depository institutions totaled \$25.8 trillion. Of this amount, bank depository institutions held 92 percent of the assets, or \$23.6 trillion, while credit unions held the remaining 8 percent, or \$2.2 trillion. The concentration of assets among bank depository institutions largely reflects the fact that these institutions, on average, hold more assets relative to credit unions (table 1).

TABLE 1
Bank and Credit Union Snapshot, Third Quarter of 2022

	Number of banks	Total assets (thousands of dollars)	Average total assets (thousands of dollars)
Credit unions	4,813	\$2,150,450,536	\$446,800
Bank depository institutions	4,746	\$23,631,743,095	\$4,929,297
Total	9,559	\$25,782,193,631	\$2,697,164

Sources: Federal Deposit Insurance Corporation and Urban Institute calculations of data from the National Credit Union Administration.

We count 507 minority credit unions and 145 minority depository banks.¹¹ Decomposing depository institutions by minority status also reveals that these minority institutions are smaller, on average, than nonminority institutions. The smaller average size of minority institutions occurs for both minority banks and minority credit unions.¹²

Black depository institutions are especially small, compared with both other minority depository institutions and with nonminority depository institutions.¹³ The average Black bank is 32 percent of the size of the average non-Black minority bank and 7 percent of the size of the average nonminority financial institution. Similarly, the average Black credit union is 44 percent of the size of the average non-Black minority credit union and 19 percent of the size of the average nonminority credit union (table 2).

TABLE 2

Banks and Credit Unions, by Ownership Makeup, Third Quarter of 2022

	Number of banks or credit unions	Total assets (thousands of dollars)	Average total assets (thousands of dollars)
FDIC-insured banks			
Black MDI	20	\$75,588,321	\$379,416
Non-Black minority	125	\$145,415,744	\$1,163,326
Nonminority	4,601	\$23,478,739,030	\$5,102,964
NCUA federally insured credit unions			
Black MDI	361	\$33,494,728	\$92,783
Non-Black minority	146	\$31,076,820	\$212,855
Nonminority	4,306	\$2,085,878,989	\$484,412

Sources: FDIC and Urban Institute calculations of data from the NCUA.

Note: FDIC = Federal Deposit Insurance Corporation; MDI = minority depository institution; NCUA = National Credit Union Administration.

Black Credit Unions Are Less Likely to Offer Key Digital Banking Services

Digital banking services can efficiently expand a financial institution's size and reach. On one hand, digital banking offers important benefits such as convenience, including control over when financial tasks like depositing a check are performed.¹⁴ Digital banking services also allow depository institutions to connect with customers who may not live near a physical branch. And because these services may require fewer employees, they can help depository institutions reduce costs.

Data collected for the NCUA indicate that most institutions reported having key digital banking features. As of the end of the third quarter of 2022, 79 percent of credit unions reported having an informational website, 70 percent reported having a mobile application, and 81 percent reported providing online banking services (figure 1).¹⁵

FIGURE 1

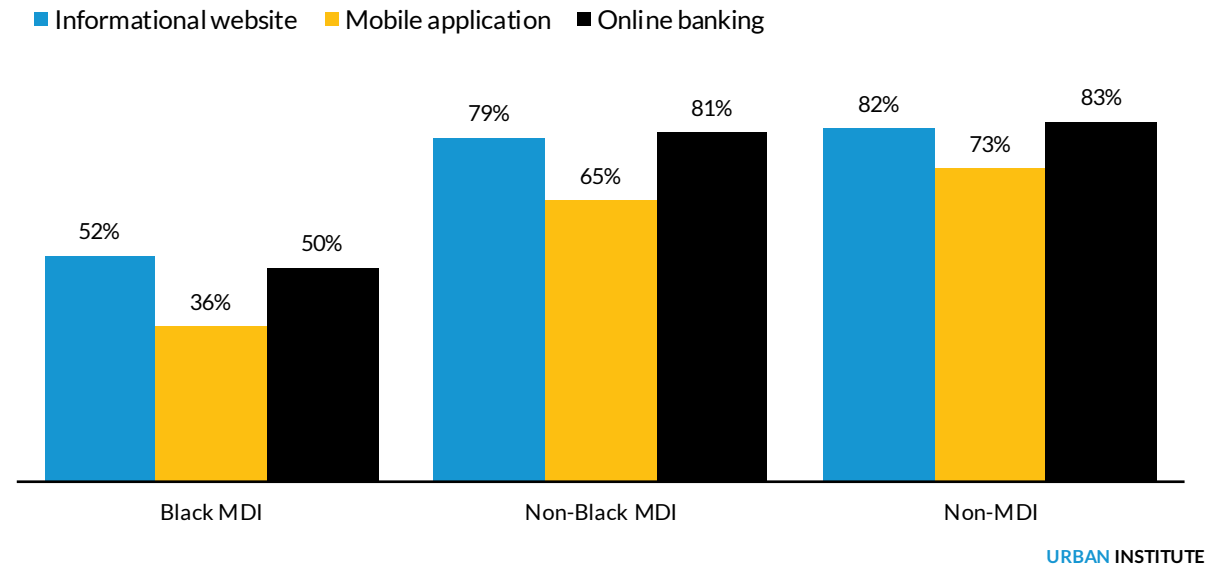
Share of Credit Unions That Offer Key Digital Banking Services, Third Quarter of 2022

URBAN INSTITUTE

Source: Urban Institute calculations of September 2022 National Credit Union Administration call reports.

But there is a noticeable inequity among Black credit unions. Eighty-two percent of nonminority credit unions and 79 percent of non-Black minority credit unions reported having an informational website, but only 52 percent of Black credit unions have an informational website. Similarly, 73 percent of nonminority credit unions and 65 percent of non-Black minority credit unions had a mobile application, but 36 percent of Black credit unions had a mobile application. Eighty-three percent of nonminority credit unions and 81 percent of non-Black minority credit unions offered online banking services, but only 50 percent of Black credit unions offered online banking services (figure 2). And these results may be a proxy for Black institutions in general, because credit unions account for 95 percent of the combined number of Black credit unions and banks.

FIGURE 2
Share of Federally Insured Credit Unions That Offer Service, Third Quarter of 2022



Source: Urban Institute calculations of September 2022 National Credit Union Administration call reports.
Note: MDI = minority depository institution.

Potential Causes and Consequences of Digital Banking Disparities

The disparity in these digital banking offerings may reflect less need for them. For instance, Black people and other people of color are less likely than others to have a smartphone or internet access.¹⁶ And older generations are less likely to have these internet conduits relative to younger generations (table 3).

TABLE 3

Share of People without Smartphone or Internet Access, by Race and Generation, 2016–20

	All	Black	Other racial or ethnic minority	White
Generation Z (1996–)	2.1%	3.5%	2.4%	1.6%
Millennials (1981–96)	2.1%	3.8%	2.5%	1.4%
Generation X (1965–80)	2.8%	5.2%	3.2%	2.2%
Baby boomers (1946–64)	7.0%	12.9%	7.6%	6.0%
Silent generation (1928–45)	20.3%	28.4%	20.1%	19.5%

Sources: Pew research and Urban Institute calculations of American Community Survey data.

Note: The years covering each generation are taken from Pew Research Center.

Conversely, younger generations are more likely to have access to either a smartphone or internet access, and younger people, including young Black consumers, are emerging users of financial services. The demographically driven demand for digital banking services is supported by the pandemic's impact on bank branch closures.¹⁷ Fewer open branches increased the need for digital banking services when in-person assistance was halted.¹⁸

More generally, digital banking is quickly becoming the standard across the financial landscape.¹⁹ The penetration of digital financial services partly reflects customers' access and needs. But technology has developed in support of digital banking. More recently, artificial intelligence has become a growing conduit of digital banking.²⁰

Policy Implications

Relationship banking may be less sensitive to the benefits of technology, but it is not insensitive. The disparities in digital banking services between Black and other non-Black minority credit unions suggests that Black depository institutions have an opportunity to deepen technological adoption where appropriate (for outreach and routine transactions) while maintaining the benefits of their banking model (diagnosing the needs and customizing solutions). And this technology can be used for customer-facing services such as check deposits and for back-end operations such as accounting.

To date, the private, philanthropic, and public sectors are all helping minority depository institutions overcome the market challenges they face in acquiring and putting technology into use. Partly in coordination with the federal government, several technology companies have agreed to provide minority depository institutions and community development financial institutions access to technology, data, and professional expertise.²¹ In addition, federal agencies such as the NCUA, the Federal Reserve, the FDIC, and the US Department of the Treasury have programs and committees supporting these minority institutions.

To help expand the benefits of minority depository institutions, more private-sector companies could join this effort and provide investment, particularly to defray costs and expand capacity, and provide technical assistance to help Black depository institutions integrate new systems with current technological infrastructure. But technical assistance by the financial and technology sectors, as well as

from community leaders, is critical to help minority depository institutions account for the unique risks these products and services pose to people and business of color. Businesses of color are more likely to face cybercriminal activity and fraud attacks, for instance, and as more depository institutions adopt advanced digital capabilities, such as facial recognition, the potential for unintended racial bias may increase.²² To limit any harm associated with technology adoption, third-party risk management strategies by Black depository institutions will be key amid potentially greater regulatory scrutiny (Betru, Lee, and Chawla, n.d.). But these strategies should emphasize risk mitigation as opposed to outright avoidance.

Conclusion

Although this analysis offers important insights, it is important to note limitations. For example, the data on digital banking cover just half of the depository financial institutions. The results may be different if similar data for depository institution banks were included. In addition, the results cover specific forms of digital banking, but assessment of other types of electronic services may also alter these results.²³

But the reported data suggest that amid significant progress in digital banking, financial inclusion will remain a key area of need. Financial inclusion discussions often focus on the demand side, including unbanked or underbanked households, many of whom are people of color.²⁴ At the same time, financial inclusion must focus on the supply side by ensuring that minority depository institutions can adequately adopt key digital banking technology. Doing so could expand the beneficial services these institutions provide.

By strengthening the technological apparatus of Black depository institutions, the investments the federal government and other stakeholders have made can help close the current technology gap that threatens the future of these institutions. Although eliminating technological disparities cannot solve all the challenges these institutions face or the communities of color they serve, closing this gap could better enable them to provide communities of color more access to financial opportunities and ultimately help address the broader racial wealth gap.

Notes

- ¹ US Department of the Treasury, “Treasury to Invest \$9 billion in Community Development Financial Institutions and Minority Depository Institutions through Emergency Capital Investment Program (ECIP),” press release, March 4, 2021, <https://home.treasury.gov/news/press-releases/jy0047>. The \$9 billion is part of \$12 billion of emergency support being provided by the Treasury to community development financial institutions and minority depository institutions to help their communities respond to the economic hardships created by the COVID-19 pandemic.
- ² See also Russell D. Kashian, Richard Gregory, and Derrek Grunfelder McCrank, “Whom Do Black-Owned Banks Serve?” Federal Reserve Bank of Boston, May 28, 2014, <https://www.bostonfed.org/publications/communities-and-banking/2014/summer/whom-do-black-owned-banks-serve.aspx>.
- ³ Neal and Walsh (2020) report that the share of Black bank Home Mortgage Disclosure Act reporters plunged in 2017, likely reflecting an expansion in the Home Mortgage Disclosure Act reporting threshold implemented that year.
- ⁴ Theodos, González-Hermoso, and Myczkowska (2022) report the challenges community development financial institutions have with technology in support of small business lending.
- ⁵ “Relationship Banking 101,” First Citizens Bank, November 4, 2021, <https://www.firstcitizens.com/small-business/insights/banking/relationship-banking-what-do-we-know>. See also Barth, Cebula, and Xu (2021), which points to the potential for lower rates when the alternative is payday lenders.
- ⁶ “Credit Union and Corporate Call Report Data,” National Credit Union Administration, last updated December 8, 2022, <https://ncua.gov/analysis/credit-union-corporate-call-report-data>.
- ⁷ See also “Call Report Forms and Instructions Archive,” National Credit Union Administration, last updated January 17, 2023, <https://ncua.gov/analysis/credit-union-corporate-call-report-data/call-report-forms-instructions-archive>.
- ⁸ “Bank Call Report Information: September 2022,” Federal Deposit Insurance Corporation, last updated December 8, 2022, <https://www.fdic.gov/resources/bankers/call-reports/previous-quarters/2022-09.html>.
- ⁹ “American Community Survey 5-Year Data (2009-2021),” United States Census Bureau, December 8, 2022, <https://www.census.gov/data/developers/data-sets/acs-5year.html>.
- ¹⁰ This analysis includes the 3,015 federally chartered and federally insured credit unions as well as the 1,798 state-chartered and federally insured credit unions. It excludes the 104 state-chartered credit unions that are not federally insured. This means we analyze 507 minority credit unions that are federally insured but are either federally or state chartered and exclude 9 minority credit unions that are state chartered and state insured. We do this because the public list of minority credit unions also excludes state-chartered and state-insured credit unions.

We used the list located at this website (“Minority Depository Institutions,” National Credit Union Administration, last updated December 21, 2022, <https://www.ncua.gov/support-services/credit-union-resources-expansion/resources/minority-depository-institution-preservation/mdi>) to identify Black credit unions in the call report data. The definitions of minority banks and minority credit unions differ. According to the FDIC, there are two definitions of how FDIC-insured commercial banks and savings associations may qualify for minority depository institution (MDI) status. An MDI may be a federal insured depository institution for which (1) 51 percent or more of the voting stock is owned by minority individuals or (2) a majority of the board of directors is minority and the community that the institution serves is predominantly minority. Ownership must be by US citizens or permanent legal US residents to be counted in determining minority ownership. See “Minority Depository Institutions Program,” Federal Deposit Insurance Corporation, last updated November 30, 2022, <https://www.fdic.gov/regulations/resources/minority/mdi.html>.

Meanwhile, the NCUA defines a minority depository institution as a federally insured credit union in which a majority of its current members, its board of directors, and the community it services, as designated in its charter, fall within any of the eligible minority groups as described in Section 308 of the Financial Institutions

Reform, Recovery and Enforcement Act of 1989: any Black American, Asian American, Hispanic American, or Native American. Credit unions self-designate as MDIs by answering the minority questions on the CUOnline Profile. The NCUA encourages credit unions to determine whether they qualify for MDI certification.

This means that although the specific racial or ethnic designation among FDIC-insured minority banks is mutually exclusive (i.e., Black banks are separate from Hispanic banks, and so on), the designation is not exclusive among minority credit unions. That is, a credit union can be designated as Black and Hispanic simultaneously. See “Minority Depository Institution Preservation,” National Credit Union Administration, last updated September 27, 2022, <https://ncua.gov/support-services/credit-union-resources-expansion/resources/minority-depository-institution-preservation>.

- ¹¹ These counts are likely to change. For example, the National Credit Union Administration awarded its first federal charter and share insurance coverage of 2023 to For Members Only Federal Credit Union in Chicago. The credit union’s charter took effect on February 3, 2023, with operations expected to fully commence before the end of 2023, and will serve the members of the Alpha Kappa Alpha sorority (see National Credit Union Administration, “NCUA Charters For Members Only Federal Credit Union,” news release, February 9, 2023, <https://ncua.gov/newsroom/press-release/2023/ncua-charters-members-only-federal-credit-union>). In addition, Adelphi Bank is a newly created Black-owned bank headquartered in Columbus, Ohio (see Jim Dobbs, “Black-Owned Bank in Ohio Is First De Novo Approved in 2023,” *American Banker*, February 8, 2023, <https://www.americanbanker.com/news/black-owned-bank-in-ohio-is-first-de-novo-approved-in-2023>).
- ¹² For a list of Black minority banks, see “Minority Depository Institutions Program,” Federal Deposit Insurance Corporation.
- ¹³ Black credit unions are identified as any minority credit union listed at the below website whose minority category or categories includes “Black Americans.” And they may have more than one racial or ethnic designation. See “Minority Depository Institutions,” National Credit Union Administration.
- ¹⁴ Mitch Strohm, “5 Benefits of Digital Banking,” *Forbes Advisor*, December 15, 2021, <https://www.forbes.com/advisor/banking/benefits-of-digital-banking/>.
- ¹⁵ According to the Profile 4501A, an informational website is a service that provides general information, such as loan and share rates, printable forms, contact information, and privacy notices, through a website. A mobile application includes products and services a credit union provides to members through mobile devices. This includes applications for mobile devices, such as notebook and laptop computers, cellular telephones and smartphones, tablets, and audio recording devices. Online banking refers to automated delivery of products and services directly to customers through electronic, interactive communication channels. This allows members to access accounts, transact business, or obtain information on financial products and services through the internet.
- ¹⁶ Being without a smartphone is defined as no one in the household having or using a smartphone, and being without the internet is defined as the household not having access to internet, either paid or unpaid.
- ¹⁷ Alexandria White, “Millennials and Gen Z Are the Most Likely to Use Mobile Banking Apps—Here’s Why, Plus Budgeting Tips,” *CNBC*, January 29, 2021, <https://www.cnn.com/select/why-millennials-gen-z-use-mobile-banking-apps/>; and World Bank, “COVID-19 Drives Global Surge in Use of Digital Payments,” press release, June 29, 2022, <https://www.worldbank.org/en/news/press-release/2022/06/29/covid-19-drives-global-surge-in-use-of-digital-payments>.
- ¹⁸ René Bennett, “Digital Banking in 2022: Trends and Statistics,” *Bankrate*, September 28, 2022, <https://www.bankrate.com/banking/digital-banking-trends-and-statistics/>.
- ¹⁹ Nick Hill and Stephen Tu, “Rapid Growth of Virtual Banks Puts New Verve into Old Banking Systems,” *Moody’s Analytics*, April 7, 2022, <https://www.moody’s.com/web/en/us/about/insights/data-stories/rapid-growth-of-virtual-banks-puts-new-verve-into-old-banking-systems.html>.
- ²⁰ Frank Coisson, “Artificial Intelligence: The New Power in Digital Banking,” *International Banker*, October 26, 2021, <https://internationalbanker.com/technology/artificial-intelligence-the-new-power-in-digital-banking/>.
- ²¹ Businesswire, “Upstart and the National Bankers Association Partner to Provide AI Lending Technology for Minority-Owned Banks,” press release, December 9, 2021,

<https://www.businesswire.com/news/home/20211209005372/en/Upstart-and-the-National-Bankers-Association-Partner-to-Provide-AI-Lending-Technology-for-Minority-Owned-Banks>.

- ²² See Kelly Sheridan, “Women and People of Color Experience More Cyber Threats,” DARKReading, September 7, 2021, <https://www.darkreading.com/risk/women-and-people-of-color-experience-more-cyber-threats>; Steve Zurier, “Hackers, Nation-States Target US Black Community to Commit Fraud, Sow Division,” SC Magazine, March 3, 2021, <https://www.scmagazine.com/news/cybercrime/hackers-nation-states-target-us-black-community-to-commit-fraud-sow-division>; David Heun, “Facial Recognition Tech Is Catching On with Banks,” *American Banker*, September 13, 2021, <https://www.americanbanker.com/news/facial-recognition-tech-is-catching-on-with-banks>; and Faith Karimi, “People of Color Have a New Enemy: Techno-racism,” CNN, May 9, 2021, <https://www.cnn.com/2021/05/09/us/techno-racism-explainer-trnd/index.html>.
- ²³ In addition to the types of digital banking services offered, 4501 data also provide fields covering whether the following services are offered electronically: member application, new loan, new share account, loan payments, account aggregation, e-statements, external account transfers, merchant processing services, remote deposit capture, bill payment, download account history, electronic signature, and authentication and certification mobile payments.
- ²⁴ “2021 FDIC National Survey of Unbanked and Underbanked Households,” Federal Deposit Insurance Corporation, last updated November 14, 2022, <https://www.fdic.gov/analysis/household-survey/>.

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The Urban Institute is collaborating with JPMorgan Chase to inform and catalyze a data-driven and inclusive economic recovery. The goals of the collaboration include generating cross-sector, place-based insights to guide local decisionmakers, using data and evidence to help advise JPMorgan Chase on the firm's philanthropic strategy, and conducting new research to advance the broader fields of policy, philanthropy, and practice. This brief quantifies the size of Black financial institutions, analyzes the extent to which Black credit unions provide key digital banking solutions, and explores existing efforts and additional supports needed to help fill technology gaps.



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