



The Potential and Limits of Black-Owned Banks

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Black-owned banks are often considered a potential source of local economic support in predominately black communities, but the number of these banks is declining. Congressman Gregory Meeks (D-NY), chairman of the House Financial Services Committee's Subcommittee on Consumer Protection and Financial Institutions, introduced legislation in 2019 that aims to help credit unions and minority-owned depository institutions, including Black-owned banks.¹ The Ensuring Diversity in Community Banking Act would boost federal government insurance of and deposits in minority-owned banks and provide incentives for investing in those lenders. Meeks's bill would create a streamlined application process for banks with assets under \$3 billion (applies to most minority-owned banks and credit unions) to be certified as community development financial institutions (CDFIs). As CDFIs, they would have access to CDFI Fund programs, which offer various mechanisms to increase capital for community investments.

To help policymakers and other stakeholders better understand the role and trends of Black-owned banks (i.e., depository institutions where 51 percent or more of the stock is owned by Black people) (Toussaint-Comeau and Newberger 2017), we evaluated the most recent comprehensive data. We found that the typical Black-owned bank is considered a community bank and typically serves predominantly Black communities in many ways. But they likely face headwinds that extend beyond those of the community banking sector as a whole.

More specifically, Black-owned banks focus their lending on small businesses, nonprofits (e.g., churches), and Black homebuyers.² They have always maintained their focus on predominantly Black communities, increasing their mortgage lending to these communities and to Black borrowers during the housing crisis, while other institutions backed off. These banks are willing to serve their communities and generally lend in greater shares to moderate- and low-income communities in ways that may protect diversity in these neighborhoods.

Although Black-owned banks typically lend to Black borrowers, their share of all purchase mortgage lending to Black borrowers accounts for less than 1 percent. This could be because the number of Black-owned banks has declined by more than 50 percent since 2001 or because smaller minority-owned depository institutions tend to be Black-owned (Breitenstein et al. 2019). Another possibility is that recent changes to the Community Reinvestment Act have encouraged other banks to support Black homebuyers.

Black-Owned Banks Support the Predominantly Black Communities They Serve

Black-owned banks are minority depository institutions (MDIs), defined by the Federal Deposit Insurance Corporation (FDIC) as any depository institution where 51 percent or more of the stock is owned by one or more “socially and economically disadvantaged individuals.” In addition to the ownership test, institutions are considered MDIs if a majority of the board of directors is minority and the community the institution serves is predominantly minority.

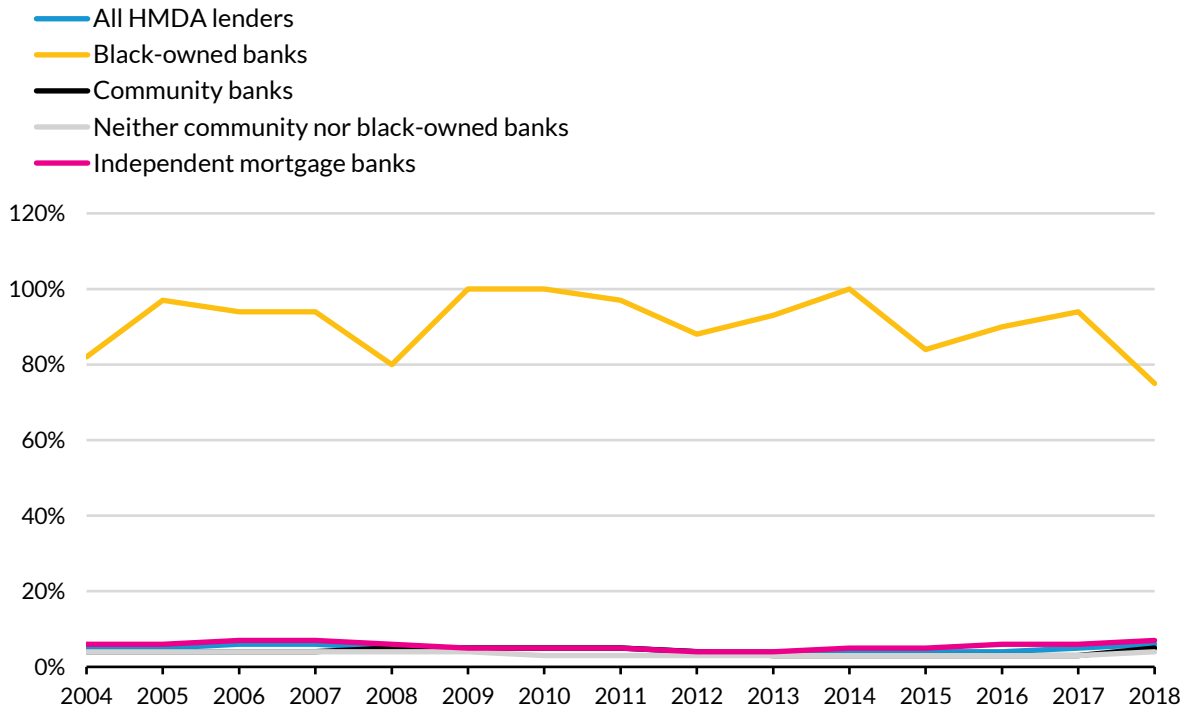
As of the end of 2018, 149 of the more than 5,400 insured financial institutions were MDIs, with 23 banks designated as Black or African American (15 percent), 73 designated Asian American (49 percent), 35 designated Hispanic (23 percent), and 18 designated Native American or Alaskan Native (12 percent). Among Black-owned banks, OneUnited Bank in Boston, with \$650.2 million in assets, was the largest Black-owned bank by the end of 2018. The smallest was Alamerica Bank in Birmingham, Alabama, with \$20.7 million in assets.³

Like most community banks, Black-owned banks support the economic life of the communities they serve. Our research reveals more details about how Black-owned banks have supported these communities since the housing crisis.

Black borrowers have always been the dominant customers for Black-owned banks. The median share of mortgage originations to Black borrowers for owner-occupied homes is substantially higher among Black-owned banks than for other bank lenders, fluctuating between 75 and 100 percent between 2004 and 2018 (figure 1). Black-owned banks are typically located in communities of color and have a mission, as community banks, to serve the neighborhoods in which they operate. In contrast, the median share of purchase mortgage originations going to Black homebuyers across all other lender cohorts, including non-Black community banks (community banks), has consistently been less than 10 percent during this same period.⁴

FIGURE 1

Share of Purchase Lending Originated to Black Borrowers, by Bank Type



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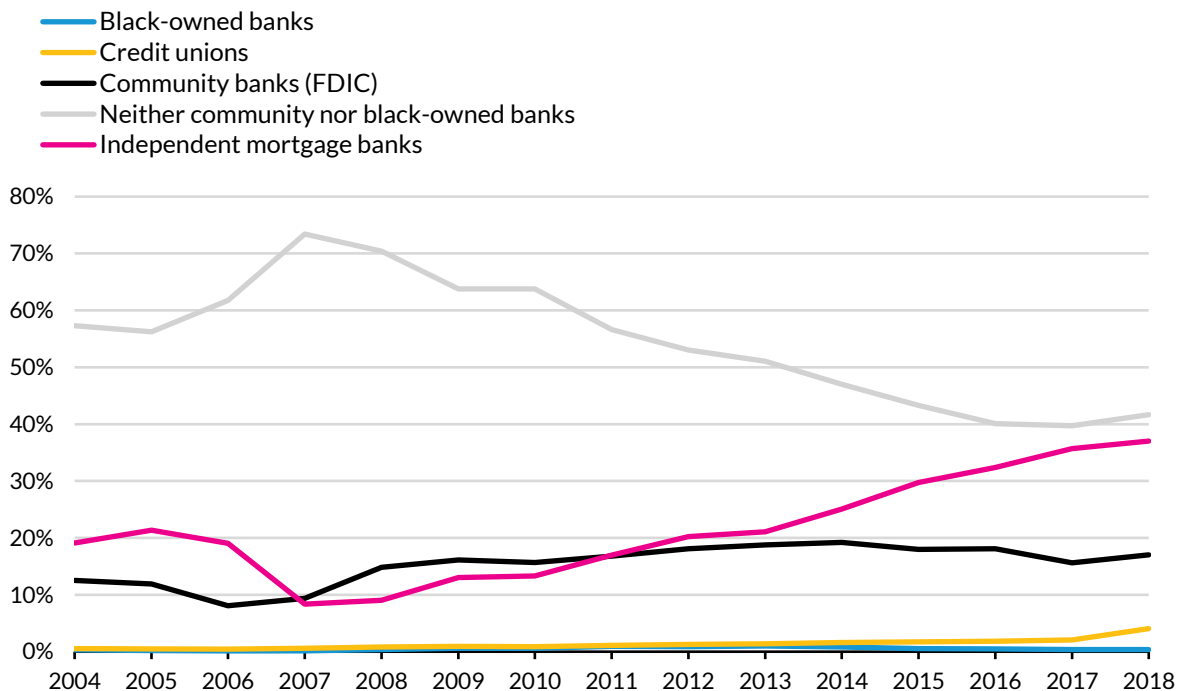
Sources: Federal Deposit Insurance Corporation data, HMDA data, and Urban Institute calculations.

Note: HMDA = Home Mortgage Disclosure Act.

Black-owned banks account for a small portion of overall purchase mortgage lending to Black borrowers. Most Black homebuyers still borrow from non-Black, non-community banks (NBNCs), but NBNCs originated nearly 80 percent of the mortgages to Black communities in 2007 and just 42 percent in 2018 (figure 2). Non-Black community banks have accounted for a stable share of originations to Black homebuyers since 2008 (between 15 and 19 percent). But independent mortgage banks (IMBs) have seen their share of lending to Black homebuyers expand during this period. Credit unions have also seen their share of mortgage loans to Black borrowers rise since 2010, but overall, they still account for less than 5 percent of total purchase mortgages to Black borrowers. Meanwhile, Black-owned banks account for less than 1 percent of purchase mortgages to Black borrowers over the entire period.

FIGURE 2

Share of All Purchase Loans to Black Borrowers, by Bank Type



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Sources: FDIC data, Home Mortgage Disclosure Act data, and Urban Institute calculations.

Note: FDIC = Federal Deposit Insurance Corporation.

Black-owned banks increased their service to Black borrowers during the housing crisis. Amid a weak housing market between 2007 and 2013, the number of mortgages originated by Black-owned banks for Black borrowers rose 57 percent (from 1,035 to 1,624), despite a 36 percent decline in the number of Black-owned banks (from 44 to 28) and a 69 percent drop in all mortgage lending to Black borrowers. Purchase mortgage loans to Black borrowers by IMBs, NBNCs, community banks, and credit unions all fell during this period. But because these institutions were small and had less activity relative to the rest of the market, the impact was nearly invisible.

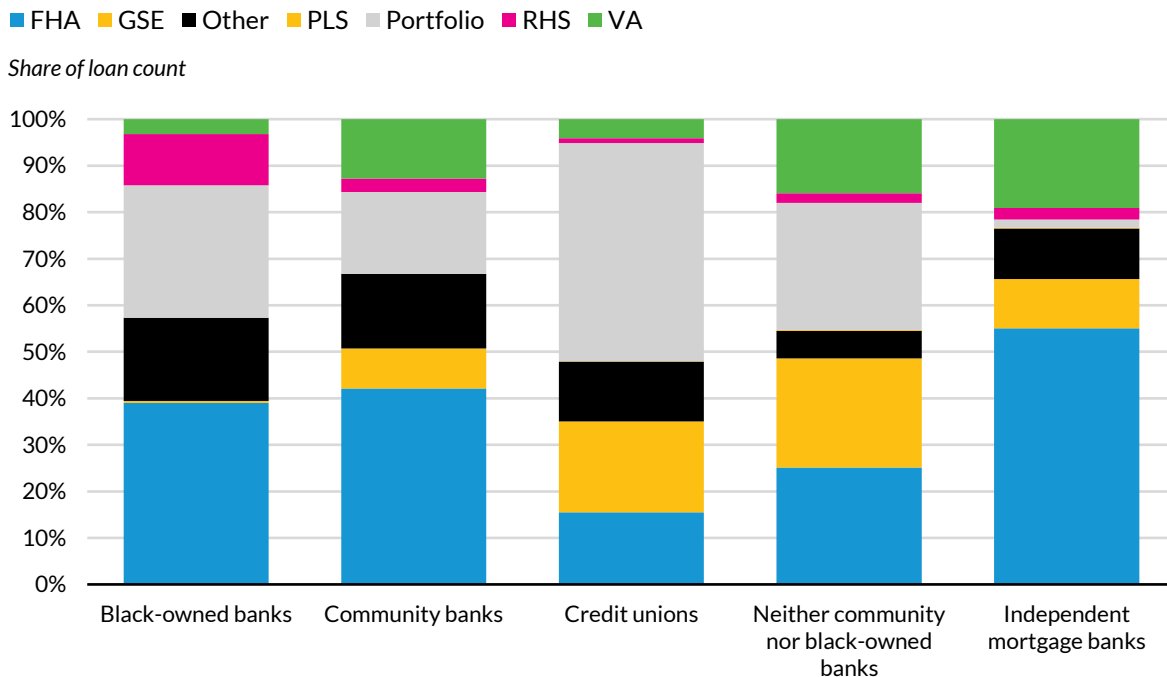
Black-owned banks tolerate higher risk to serve their communities. The five types of banks have different levels of service to Black borrowers and use a different mix of lending channels for these loans. Black-owned banks, community banks, and IMBs use Federal Housing Administration (FHA) mortgages, which generally serve riskier borrowers, more with their Black borrowers than do NBNCs and credit unions. IMBs had the highest share of FHA mortgages for their Black borrowers at 55 percent, followed by non-Black community banks at 42 percent and Black-owned banks at 39 percent (figure 3).

In addition, these five types of banks hold different levels of their mortgages “in portfolio,” essentially keeping all the risk that the borrower will default. Credit unions kept 47 percent of the loans

made to Black borrowers in portfolio. Black-owned banks held 28 percent, NBNCs held 27 percent, community banks held 18 percent, and IMBs held just 3 percent.

In 2016, 67 percent of the mortgages made by Black-owned banks to Black borrowers were either FHA mortgages or mortgages held in portfolio, reflecting a strong devotion by these banks to the riskiest borrowers in their community, as well as a willingness to incur a high level of institutional exposure to risk from mortgage nonpayment.

FIGURE 3
Channel Share of 2016 Purchase Loans to Black Borrowers, by Bank Type



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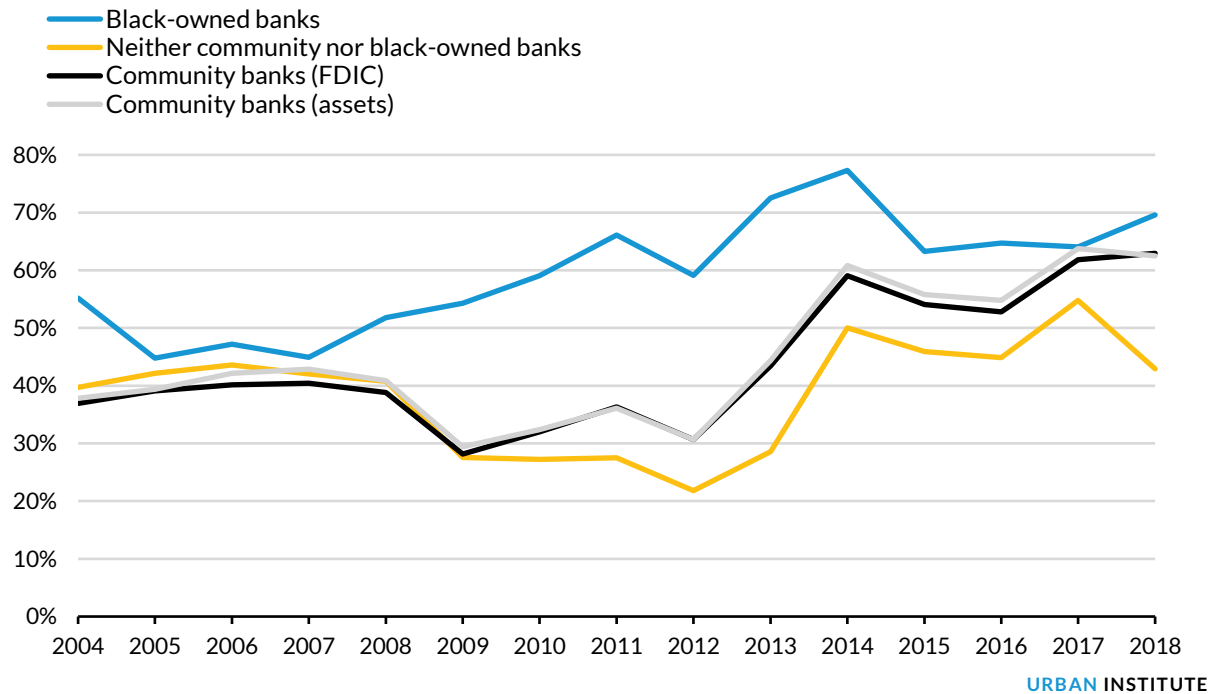
Sources: FDIC data, HMDA data, and Urban Institute calculations.

Notes: FDIC = Federal Deposit Insurance Corporation; FHA = Federal Housing Administration; GSE = government-sponsored enterprise; HMDA = Home Mortgage Disclosure Act; PLS = private-label securities; RHS = Rural Housing Service; VA = US Department of Veterans Affairs. We use 2016 instead of 2018 because 2016 was the last year that the Black-owned bank population in HMDA data was more than half the total number of Black-owned banks identified by the FDIC. The category “other” includes purchases by commercial banks, savings banks, savings associations, credit unions, mortgage companies, finance companies, life insurance company affiliate institutions, and other types of purchasers. For Black-owned banks in 2016, the majority of one-to-four-family purchase loans in the “other” category were “other type of purchaser.”

Black-owned banks filled a small portion of the gap in purchase mortgage lending after the housing crisis. Since 2008, the share of purchase mortgages, compared with refinance or home improvement loans, originated by Black-owned banks has exceeded the share of other community banks and NBNCs. In recent years, the gap has narrowed as the housing market has showed signs of a sustainable recovery (figure 4).

FIGURE 4

Purchase Share of All Loans

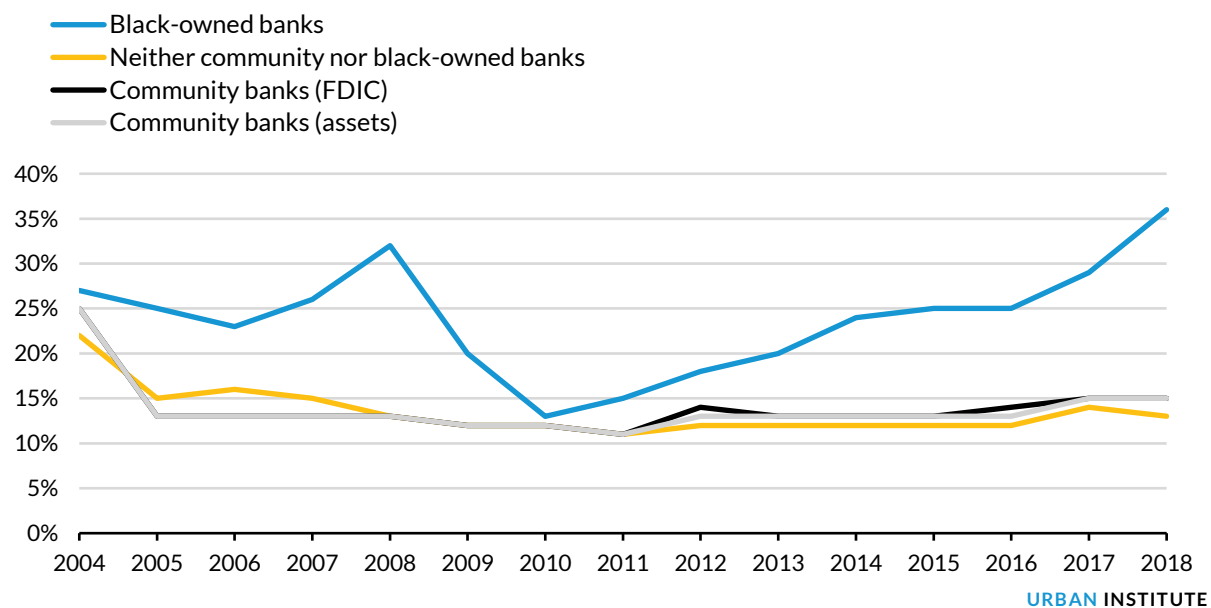


Sources: Home Mortgage Disclosure Act data and Urban Institute calculations.

Note: FDIC = Federal Deposit Insurance Corporation.

FIGURE 5

Share of Loans inside Low- and Moderate-Income Tracts



Sources: Home Mortgage Disclosure Act data and Urban Institute calculations.

Note: FDIC = Federal Deposit Insurance Corporation.

Black-owned banks generally lend in greater shares to low- and moderate-income census tracts. Black-owned banks have done a greater share of their lending to borrowers living in low- and moderate-income (LMI) census tracts throughout most of the past 14 years than the other lending institutions, although their share contracted significantly between 2009 and 2014, showing a greater impact from the business cycle than the LMI lending of community banks and NBNCs (figure 5). Since 2014, the share of lending by Black-owned banks within LMI tracts has reached historic highs.

Black-owned bank lending to high-income borrowers in LMI tracts since 2007 may help protect community diversity. Lending standards across the mortgage lending industry are historically tight today compared with 2007 (table 1).⁵ Amid tighter credit availability, a bigger share of mortgage loans originated by Black-owned banks for borrowers in LMI tracts have gone to borrowers with higher incomes, particularly borrowers with incomes that exceed the census tract’s area median income. But with significant demographic shifts taking place in many urban areas, Black-owned banks are likely helping to protect the diversity of those communities and potentially offering better loan terms.

TABLE 1
Share of Mortgages Originated by Black-Owned Banks in Low- and Moderate-Income Areas, by Borrower Income Percentile

Income percentile	2007	2016
≤60 percent of AMI	41.1%	27.0%
60 to 80 percent of AMI	17.6%	20.1%
80 to 100 percent of AMI	12.0%	14.2%
>100 percent of AMI	29.3%	38.7%

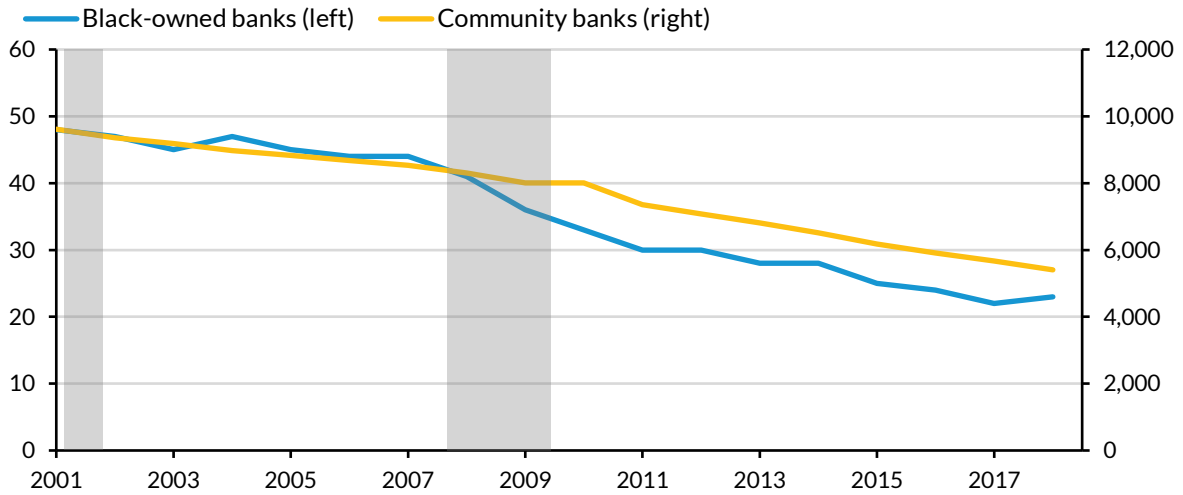
Sources: Home Mortgage Disclosure Act and Census Bureau data.

Note: AMI = area median income.

All Black-Owned Banks Are Community Banks

As of the end of 2018, most US banks are community banks, including all 23 Black-owned banks. Despite the decline in the number of banks since at least 2001 (figure 6), the community bank share has remained high and steady (figure 7). In the years following the Great Recession, the community bank share has been modestly greater than over the years leading up to that recession.

FIGURE 6
Number of Banks

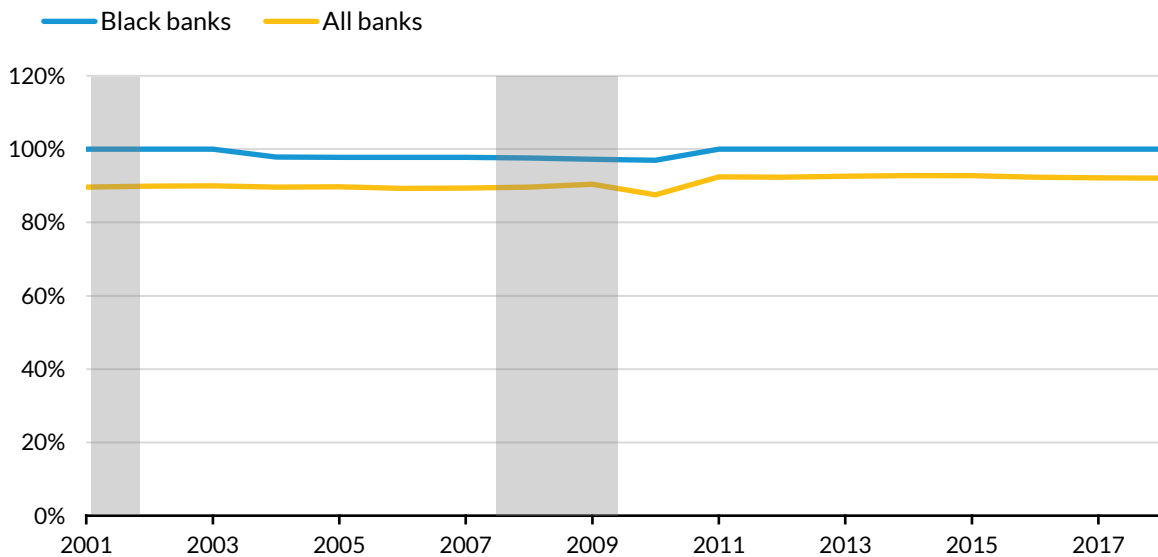


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Sources: Federal Deposit Insurance Corporation data and Urban Institute calculations.

Note: Gray shading indicates a recession.

FIGURE 7
Share of Banks Considered Community Banks



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Sources: Federal Deposit Insurance Corporation data and Urban Institute calculations.

Note: Gray shading indicates a recession.

Recent Trends in Black-Owned Banks

Community banks play a vital role in supporting the communities they serve.⁶ As small regional banks, the impact of community banks (which the FDIC defines based on such characteristics as bank size, activity, and geographic reach) in terms of the presence of physical branches and local ownership, is especially important in areas with severe credit rationing and areas with low access to finance (Hakenes et al. 2015). As technology has allowed larger banks to deepen their market penetration without the need for physical branches, physical community bank branches are often the last defense between a community and banking isolation (Dahl and Franke 2017).

The presence of a physical bank branch is especially beneficial in low-income areas (Hegerty 2016). Physical branches allow relationship banking, practiced by most community banks, where the lender considering a loan applicant takes into account a borrower's financial status and the lender's personal knowledge of the borrower developed over the length of their relationship. This produces greater access to credit to a wider group of borrowers.⁷

Community banks tend to support small businesses and nonprofits, such as churches. In addition, community banks are an important source of credit access at competitively priced products for the locale, often creatively meeting a diverse array of consumer and commercial credit needs as important partners in a community's economic stability (Federal Reserve Bank of St. Louis, n.d.).

One way that community banks support the neighborhoods they serve is through purchase mortgage lending in support of local homeownership, which, in turn, supports broader neighborhood stability.⁸ Community banks tend to have larger shares of home purchase loans than loans for other purposes, such as refinancing or home improvement (Duke 2012).

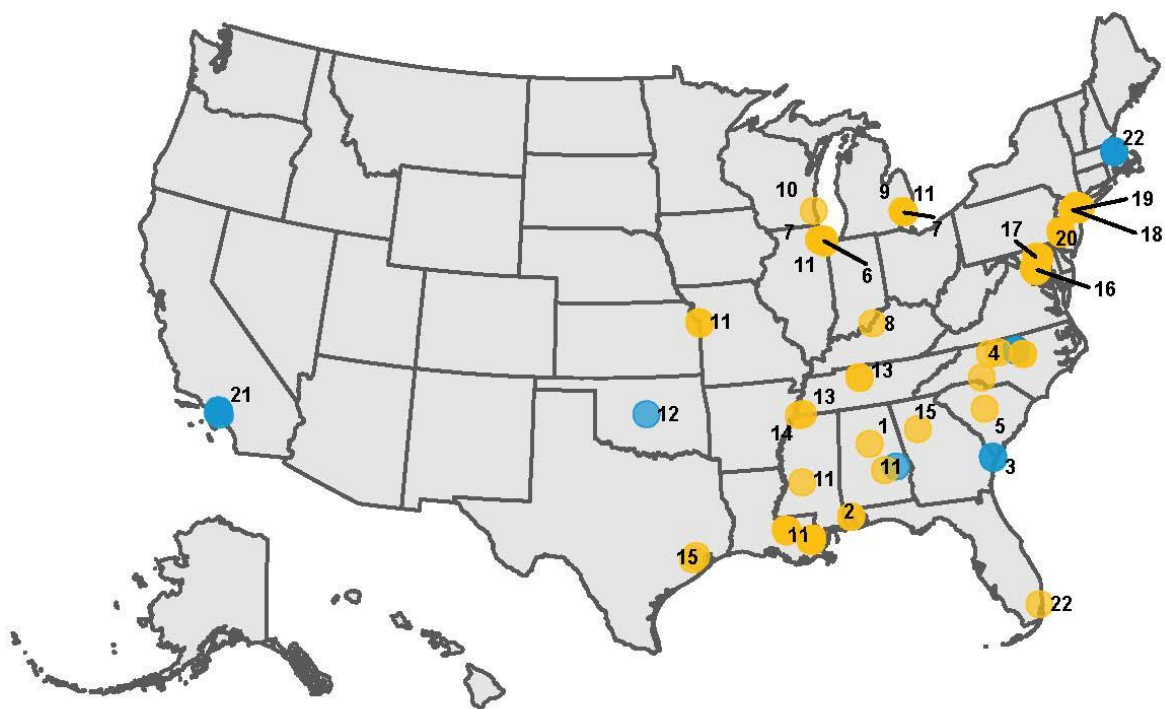
As of the third quarter of 2019, there were 22 Black-owned banks, all of them community banks. The analysis in this brief is based on 2018 data, when there were 23 Black-owned banks. Between the end of 2018 and the third quarter of 2019, Providence Bank and Trust acquired the Urban Partnership Bank.⁹

The map below shows that the headquarters of Black-owned banks are typically located in metropolitan statistical areas with a higher-than-average Black population share. Of the 23 Black-owned banks in 2018, 18 were located in metropolitan statistical areas where the Black population share exceeded the national average.

FIGURE 8

Single-Family Mortgages by Black-Owned Banks

- Black-owned bank headquarters
- Black-owned bank headquarters (black population above national average)



1. Alamerica Bank	12. First Security Bank and Trust Company
2. Commonwealth National Bank	13. Citizens Savings Bank and Trust Company
3. Carver State Bank	14. Tri-State Bank of Memphis
4. Mechanics and Farmers Bank	15. Unity National Bank of Houston
5. South Carolina Community Bank	16. Industrial Bank
6. GN Bank	17. The Harbor Bank of Maryland
7. Urban Partnership Bank	18. City National Bank of New Jersey
8. Metro Bank	19. Carver Federal Savings Bank
9. First Independence Bank	20. United Bank of Philadelphia
10. Columbia Savings and Loan Association	21. Broadway Federal Bank, f.s.b.
11. Liberty Bank and Trust Company	22. OneUnited Bank

Source: Federal Deposit Insurance Corporation.

A comparison of selected bank balance sheet items suggests that Black-owned banks are similar to other community banks in some ways. Relative to total deposits, Black-owned banks hold a similar amount of net loans and leases, one-to-four-family residential loans, and consumer loans to individuals, such as auto loans. Black-owned banks' relative holdings of small business commercial and industrial loans is modestly below the share held across all other community banks but double the proportion held on the balance sheets of non-community banks (table 2).

TABLE 2

Share of Deposits, Fourth Quarter of 2018

	Net loans and leases	One-to-four-family residential loans	Consumer loans to individuals	Small business commercial and industrial loans
Black-owned banks	85%	22%	2%	8%
All other community banks	86%	24%	3%	10%
Non-community banks	70%	17%	14%	4%

Source: Authors' calculations from 2018 Federal Deposit Insurance Corporation call report data.

The Number of Black-Owned Banks Is Declining

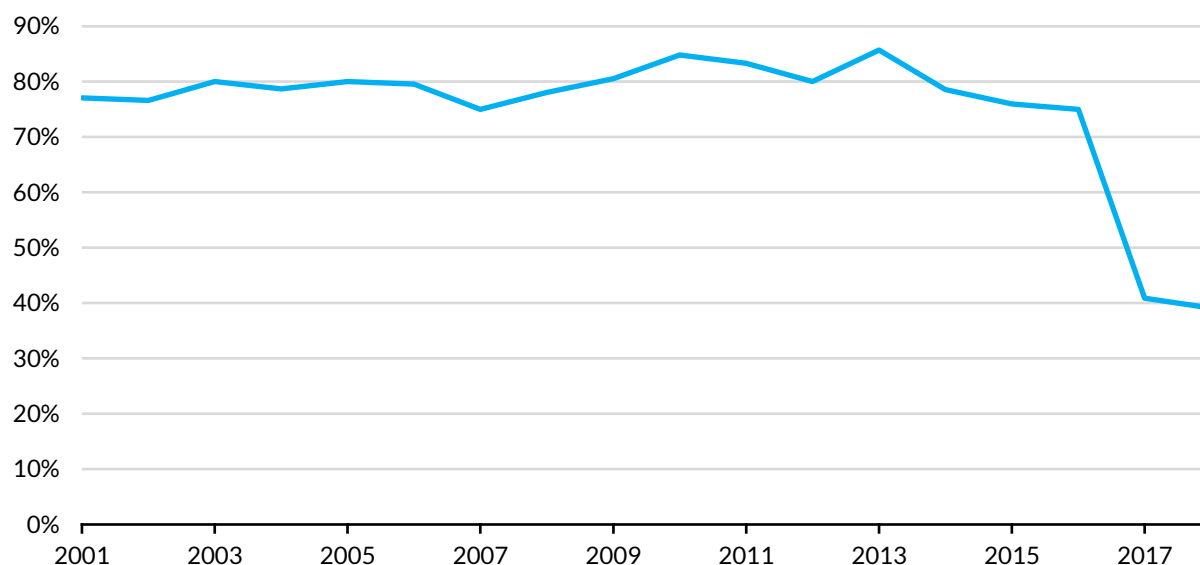
Black-owned banks appear to be facing strong headwinds from structural changes in the banking industry, greater bank competition, and bank concentration. Although black-owned banks seek to help black communities, which are often of lower income, the poverty of these neighborhoods may contribute to the failures of black banks (Baradaran 2017). The number of Black-owned banks increased steadily during the 1960s and 1970s but declined more than 50 percent between 2001 and 2018 to 23 banks (Brimmer 1971; Cole et al. 1985). Over that same period from 2001 to 2018, the number of Native American, Hispanic, and Asian American MDIs in 2018 was above its level in 2001.

The decrease in the number of Black-owned banks was already occurring before the Great Recession. But the Great Recession may have had a bigger impact on Black-owned banks relative to the average experience across the banking industry. During the Great Recession, the pace of decline in the number of Black-owned banks accelerated relative to the decrease in the number of banks overall. Research on minority-owned community banks more generally finds that these banks, including Black-owned banks, were hit particularly hard during the 2008 financial crisis, as evidenced by higher rates of failures and closures relative to other minority banks (Toussaint-Comeau and Newberger 2017). Since 2008, the number of Black-owned banks fell 44 percent compared with a 35 percent decrease in the total number of banks overall.

The share of Black-owned banks identified by the FDIC that were also required to report mortgage lending activity under the Home Mortgage Disclosure Act (HMDA) was steady between 2001 and 2016. The share of HMDA-reporting Black-owned banks ranged between 75 and 86 percent. The share of Black-owned bank HMDA reporters plunged in 2017, likely reflecting an expansion in the HMDA reporting threshold implemented that year.¹⁰ Before 2016, banks that extended 100 open-ended lines of credit and 25 closed-end mortgages in each of the two preceding calendar years were required to report. In 2017, this requirement was raised to at least 500 open-ended loans in each of the two preceding calendar years.

FIGURE 9

Share of Black-Owned Banks That Are HMDA Reporters



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Source: Call report data on Federal Deposit Insurance Corporation-insured depository institutions obtained by the Federal Financial Institutions Examination Council, matched with loan and borrower characteristics from HMDA now housed at the Consumer Financial Protection Bureau.

Notes: HMDA = Home Mortgage Disclosure Act. HMDA data were restricted to one-to-four-family mortgages for owner-occupied units. HMDA did not include a variable describing property type until 2004, so to remain consistent, this brief uses years 2004 and onward.

Seventy-five to 100 percent of purchase mortgage lending by the typical Black-owned bank goes to Black homebuyers, but most Black homebuyers turn to NBNCs and IMBs for their mortgages. This is partly because of the small size of and number of Black-owned banks, but this may also be an unintended consequence of laws and regulations meant to fight redlining and encourage non-Black-owned banks to serve Black customers.

For instance, the 1977 Community Reinvestment Act, which required all banks to meet the banking needs of those in their communities—including low-income residents and minorities—may have spurred lending to Black homebuyers by other banks and reduced the share of lending by Black-owned banks. The passage of the Community Reinvestment Act, which encouraged banks and thrifts to help meet the credit needs of communities in their service areas (consistent with safe banking practices) brought additional competition to smaller or more geographically focused institutions such as MDIs (Toussaint-Comeau and Newberger 2017). The size of Black-owned banks and the movement of the Black middle class are also key contributors to the level of mortgage lending by Black-owned banks. As Black families move out of neighborhoods where Black-owned banks are located, these banks will need to develop new strategies to continue serving Black families.

Public Policy Recommendations and Conclusion

To address the role of homeownership in the vast wealth disparity between Black and white communities, we must understand the potential for Black lenders in addition to Black borrowers. Although Black-owned banks alone cannot solve racial wealth inequities, Black-owned banks play a unique role in supporting Black communities. Black-owned banks offer many of the traditional products used to build wealth, including home purchase mortgage loans, and they have a unique and consistent focus on and understanding of the financial and economic needs of their local Black communities.

This knowledge should be leveraged as we develop policies to better support communities of color. As strong community anchors, Black-owned banks should be engaged in policy development at all levels of government.

The impact of increased regulatory oversight on Black-owned banks should also be examined. Although increased regulatory oversight of banks was an appropriate response to the financial crisis, community banks have been granted some relief from these additional regulatory burdens, as they were viewed as less culpable for the crisis and more vulnerable to damage from increased regulatory burdens.¹¹ We should continue to examine the impact of additional regulatory burdens on community banks, explicitly noting the impact on Black- and other minority-owned banks, as well as on the communities they serve.¹²

Notes

- ¹ John Reosti, “Is Time Running Out to Save Black-Owned Banks?” *American Banker*, November 13, 2019, <https://www.americanbanker.com/news/is-time-running-out-to-save-black-owned-banks>.
- ² Urban Institute analysis using data from the American Community Survey found that the Black-white homeownership gap is wider today than before the passage of the 1968 Fair Housing Act, which aimed to close racial discrepancies in homeownership opportunities.
- ³ Data from the FDIC’s Minority Depository Institution List from the third quarter of 2019.
- ⁴ Community banks, all banks, and all Home Mortgage Disclosure Act lenders are conditioned on the institution originating at least one loan to Black borrowers each year. If these categories included all the institutions within each respective designation, the median share would have been virtually zero.
- ⁵ “Hosing Credit Availability Index: Q2 2019,” Urban Institute, Housing Finance Policy Center, last updated October 25, 2019, <https://www.urban.org/policy-centers/housing-finance-policy-center/projects/current-hcai/archive/q2-2019>.
- ⁶ Patrick T. Harker’s remarks from the 2019 Community Banking in the 21st Century Research and Policy Conference on October 2, 2019.
- ⁷ Kylee Wooten, “Measuring What Community Banks Bring to the Table,” American Banking Association blog, April 24, 2019, <https://bankingjournal.aba.com/2019/04/measuring-what-community-banks-bring-to-the-table/>.
- ⁸ William J. Gilmartin, “Homeownership Underlies Neighborhood Stability,” Bipartisan Policy Center, August 7, 2012, <https://bipartisanpolicy.org/blog/homeownership-underlies-neighborhood-stability/>.

- ⁹ Steve Daniels, “Urban Partnership Bank Finds a Buyer,” Crain’s Chicago Business, September 06, 2018, <https://www.chicagobusiness.com/finance-banking/urban-partnership-bank-finds-buyer>.
- ¹⁰ Consumer Financial Protection Bureau correspondence letter, December 22, 2016; Kinsey Sullivan, “3 Trends Revealed by the 2017 Public HMDA LAR Release,” NTruPoint blog, May 9, 2018, <https://www.trupointpartners.com/blog/3-trends-revealed-by-the-2017-public-hmda-lar-release>; Gillian B. White, “The Promise and Challenge of Moving Money into Black-Owned Banks,” *Atlantic*, September 12, 2016, <https://www.theatlantic.com/business/archive/2016/09/bank-black-challenges/499619/>.
- ¹¹ Rebecca Romero Rainey, “Time to Finish Reg Relief for Community Banks,” *BankThink* (blog), *American Banker*, May 24, 2019, <https://www.americanbanker.com/opinion/time-to-finish-reg-relief-for-community-banks>.
- ¹² The American Bankers Association has developed a tool that allows banks to quantify the direct cost of regulations impact, “Bank Regulatory Burden Evaluation Tool,” American Bankers Association, accessed March 13, 2019, <https://www.aba.com/news-research/references-guides/bank-regulatory-burden-tool>. Downstream costs are also key, given the role community banks play in the neighborhoods they serve.

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