

# Whom Do Black-Owned Banks Serve?

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Black-owned banks are vital sources of capital, employment, and training in low-income areas. They provide institutional leadership and jobs with career ladders to communities.

Much attention has been paid to the overall banking industry in the wake of the 2008 financial crisis but not much to black-owned banks (BOBs). What has been their approach to banking since 2008? What has been their role in communities?

Past literature focused on minority-owned banks' efficiency relative to other banks, with some authors finding insignificant differences, and others suggesting nonminority-owned banks were more efficient.<sup>1</sup> Later work showed that minority-owned banks, BOBs in particular, paid higher interest rates on certificates of deposit (CDs) than nonminority-owned banks—using CD rate premiums to help insulate customers from the effects of the recession.<sup>2</sup>

That is part of a pattern in which BOBs have been known to serve their neighborhoods as sources of credit and other support.<sup>3</sup>

## Black-Owned Banks Since 2008

To learn more about BOBs after the Great Recession and their role in communities, researchers at the University of Wisconsin, White-water, looked at bank data from 2000 and 2011. The list of BOBs and the zip codes for their main and branch offices in 2000 and 2011 come from Federal Reserve quarterly reports and the Federal Deposit Insurance Corporation (FDIC) list of Minority Depository Institutions.<sup>4</sup> The FDIC also provided annual branch deposit data, which the research team measured as a percentage of all bank deposits within each zip code on June 30, 2000, and June 2011.<sup>5</sup>

Race/ethnicity and poverty estimates were drawn from the Integrated Public Use Microdata Series (IPUMS), which was generated as part of Census 2000, and from 2009–2011 American Community Survey (ACS) data. Together the data provided a poverty indicator measured as a percentage of the official poverty level. (See “Characteristics of Black-Owned Banks.”)

A comparison of 2011 and 2000 figures points to a general market trend toward bank consolidation. Although the number of BOBs declined from 51 to 33 (35.3 percent), the number of branches decreased only slightly (from 163 to 159, or 2.5 percent), and the number of unique Zip Codes served expanded (from 142 to 150, or 5.6 percent), suggesting that a smaller number of BOBs may have been capable of serving a larger number of customers. Growth in average deposits was dramatic: more than \$10 million

## Characteristics of Black-Owned Banks in the United States, 2011 and 2000

	2011	2000
Number of banks	33	51
Number of main or branch offices	159	163
Number of unique Zip Codes served	150	142
Avg. deposits per office	\$35,967,000	\$25,525,000
Avg. deposits per bank	\$291,562,000	\$112,204,000

Source: Federal Reserve, FDIC.

## Race and Ethnicity of Areas Served by Black-Owned Banks

	National average	Black-owned bank present in market	Black-owned bank holds more than 5 % of deposits	Black-owned bank holds more than 20% of deposits
<b>Percent black</b>				
2009–2011	12.2	49.1	52.7	61.7
2000	12.0	55.6	61.7	64.0
<b>Percent nonwhite</b>				
2009–2011	36.3	70.1	75.2	84.6
2000	30.9	71.5	80.0	83.3

Source: FDIC, Federal Reserve, Missouri Census Data Center, “MABLE/Geocorr2K: Geographic Correspondence Engine with Census 2000 Geography,” <http://mcdc2.missouri.edu/websas/geocorr2k.html>, Census 2000, and the 2009–2011 American Community Survey.

(40.9 percent) per office and slightly less than \$180 million (159.8 percent) per bank.

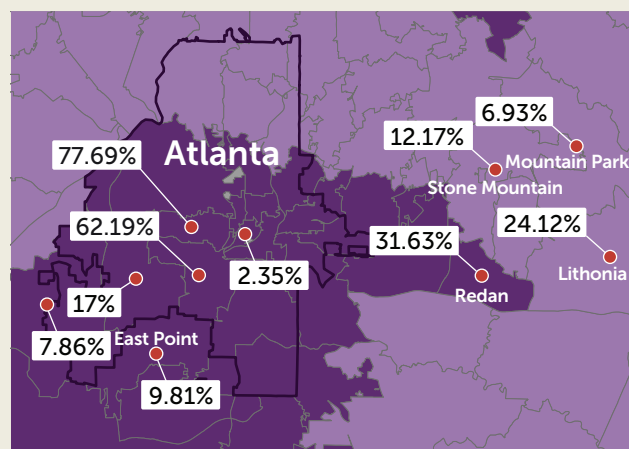
## Race and Ethnicity

The percentage of African Americans in the national population rose slightly from 12.0 percent in 2000 to 12.2 percent in 2011. The percentage of African Americans in markets served by BOBs fell between 2000 and 2011. Nonetheless, the 2011 figures remain striking: the

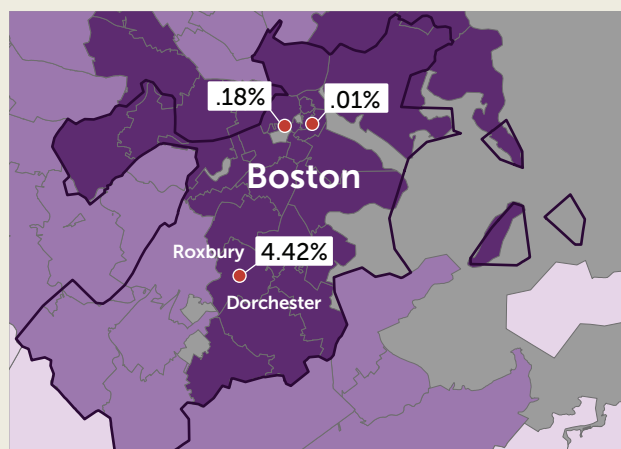
## In New England

With just four locations throughout all six states, black-owned banks (BOBs) are not dominant in New England. Three of the region's four BOBs are located in the higher-poverty parts of the greater Boston area alone. Market shares of those BOBs, ranging from virtually zero to 4.4 percent in 2011, buck the trend and are much smaller than market shares seen in the higher-poverty areas of cities such as Atlanta, Los Angeles, and New Orleans.

### Market Share of Black-Owned Banks and Poverty Rates by Zip Code



Atlanta Region, 2011



Boston Region, 2011

population in areas with any BOB is over three times more likely to be black than in the nation on average. That figure rises to more than five times the national average (61.7 percent) in areas where those banks hold more than 20 percent of deposits. Clearly BOBs tend to serve African American communities.

More broadly, the percent of nonwhites in the United States rose from 30.9 percent in 2000 to 36.3 percent in 2011. In areas with a BOB present, that figure jumps to over two-thirds (70.1 percent). In areas with BOBs holding more than 20 percent of deposits, over four-fifths (84.6 percent) of residents are nonwhite. Thus it can be argued that BOBs also tend to serve people of color who are not black. (See “Race and Ethnicity of Areas Served by Black-Owned Banks.”)

#### Poverty in Areas Served by Black-Owned Banks

Deep poverty, for individuals in families reporting income under 50 percent of the federal poverty level, affected less than 10 percent of the nation as a whole in 2000 and 2011. But deep-poverty figures were substantially larger for communities served by BOBs and almost twice as large where those banks hold at least 20 percent of a community's deposits.

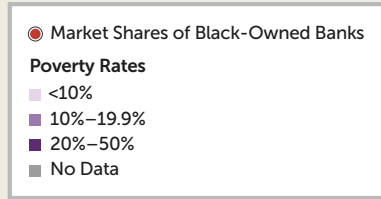
For poverty as officially measured, the rate rose from 14.5 percent in 2000 to 17.3 percent in 2011. The pattern for individuals in families be-

low double the official poverty line resembles that for the other poverty cut-offs. It is notable that, where BOBs hold at least 20 percent of a community's deposits, more than half of the residents live below the double-poverty cut-off. This finding suggests that BOBs tend to

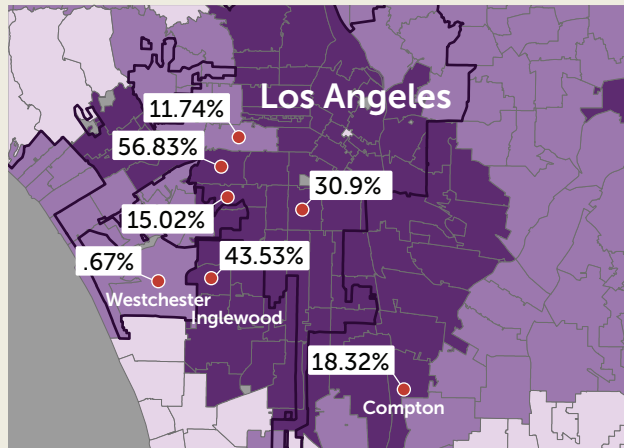
### Poverty Rates for U.S. Areas Served by Black-Owned Banks

	National average	Black-owned bank present in market	Black-owned bank holds more than 5% of deposits	Black-owned bank holds more than 20% of deposits
<b>Percent reporting deep poverty (income is below 50% of poverty level)</b>				
2009–2011	8.9	12.8	13.2	15.5
2000	7.9	13.1	14.5	15.5
<b>Percent reporting income below poverty level</b>				
2009–2011	17.3	24.2	25.0	29.3
2000	14.5	22.9	25.5	27.4
<b>Percent reporting income below double the poverty level</b>				
2009–2011	35.7	45.9	46.9	52.4
2000	31.4	42.6	46.6	49.2

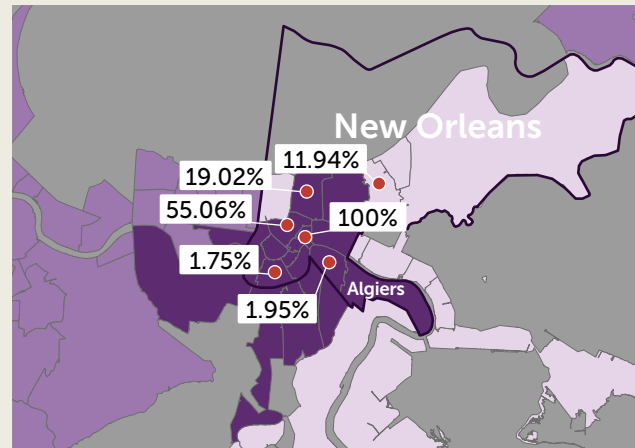
Source: FDIC, Federal Reserve, Missouri Census Data Center, Census 2000, and the 2009–2011 American Community Survey.



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Los Angeles, 2011



New Orleans, 2011

serve low-income customers with very limited asset holdings. (See “Poverty Rates for U.S. Areas Served by Black-Owned Banks.”)

## Looking Ahead

It is reasonable to conclude that BOBs are located predominantly in nonwhite communities with poverty rates almost twice the national average, suggesting that they primarily serve the needs of low-income customers.

The fact that these relationships are strongest where BOBs hold at least 20 percent of deposits further implies that BOBs locate in areas that other banks view as unprofitable. These conclusions mirror past predictions that, to survive, BOBs would increasingly serve niches where they were not in direct competition with nonminority-owned banks.<sup>6</sup> Given that BOBs are often one of the few financial intermediaries found in low-income areas, they are vital sources of capital for the residents and provide banking services to communities that are often barren of any other mainstream banking services. For members of the communities they serve, BOBs are a source of valuable jobs with career ladders, such as tellers, loan officers, and mortgage originators. They offer family wages and the opportunity for training and skill enrichment.

Economies of scale make mergers and acquisitions a force in both the general banking industry and the black-owned-bank industry. Although consolidation adds a layer to the direct interaction between customers and upper management, it appears likely to continue as the complexity of regulation and the cost advantages of size encourage institutions to grow larger.

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## Endnotes

- <sup>1</sup> See E. Elyasiani and S. Mehdian, “Productive Efficiency Performance of Minority and Nonminority-Owned Banks,” *Journal of Banking and Finance* 16 (1992): 933–948; and Z. Iqbal, K. Ramaswamy, and A. Akhigbe, “The Output Efficiency of Minority-Owned Banks in the United States,” *International Review of Economics and Finance* 8 (1999): 105–114.
- <sup>2</sup> R. Kashian, R. Gregory, and N. Lockwood, “Do Minority-Owned Banks Pay Higher Interest Rates on CDs?” *Review of Black Political Economy* (2013).
- <sup>3</sup> C. Gerena, “Opening the Vault,” *Federal Reserve Bank of Richmond Region Focus* (spring 2007): [http://www.richmondfed.org/publications/research/region\\_focus/2007/Spring/pdf/economic\\_history.pdf](http://www.richmondfed.org/publications/research/region_focus/2007/Spring/pdf/economic_history.pdf).
- <sup>4</sup> See “Minority-Owned Banks,” Federal Reserve Statistical Release, <http://www.federalreserve.gov/releases/mob/>; and “Minority Depository Institutions,” Federal Deposit Insurance Corporation, <http://www.fdic.gov/regulations/resources/minority/MDI.html>.
- <sup>5</sup> Federal Deposit Insurance Corporation, “Summary of Deposits,” <http://www2.fdic.gov/sod>.
- <sup>6</sup> J. Duker and T. Morton, “Black-Owned Banks: Issues and Recommendations,” *California Management Review* 17, no. 1 (fall 1974): 78–85.