Despite big influx of capital, Black banks say more is needed

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A trio of investment funds established to inject capital into minority-owned banks and community development financial institutions share the same ambitious goal: eliminating the nation's racial wealth gap.

To date, however, the collective impact of MDI Keeper's Fund, the Black Bank Fund and the Federal Deposit Insurance Corp.'s Mission-Driven Bank Fund has been limited. One big reason is that other sources of capital — namely, large banks and the federal government — are also making investments in minority depository institutions and CDFIs.

The recent influx of cash — largely the result of big financial commitments to Black banks that followed the murder of George Floyd — means that some historically undercapitalized institutions don't need capital right now.

"At the moment, we're good," said James Sills III, the president and CEO of M&F Bank, a Black-owned bank in Durham, North Carolina.

M&F, which has $372 million of assets, has received $18 million in direct equity from big banks and was recently allocated $76 million in equity through the Treasury Department's Emergency Capital Investment Program. The bank's equity capital nearly doubled from $21 million in late 2019 to $41.5 million in December 2021, Sills said.

Some of the investment funds may need to rework their plans, but their organizers and supporters say the money they have raised is necessary to close the racial wealth gap. They note that plenty of MDIs and CDFIs have not received capital infusions from big banks or the federal government.

"These equity funds are part of the mix, and what's important is that they remain flexible," said Nicole Elam, president and CEO of the National Bankers Association, a trade group that represents minority banks. "Because the market has changed, they may have to pivot a bit, but there is still a role for them."

Sills, who chairs the Independent Community Bankers of America's Minority Bank Advisory Council, agrees.

"Three years ago, we didn't have access to this type of capital," he said. "There are still banks that need this, and maybe those are the institutions that these funds can help."

Floyd's murder, pandemic spur commitments

Minority depository institutions and CDFIs, which provide critical banking services in underserved communities, have long struggled to get access to capital. As of June 30, 2021, when equity capital for all

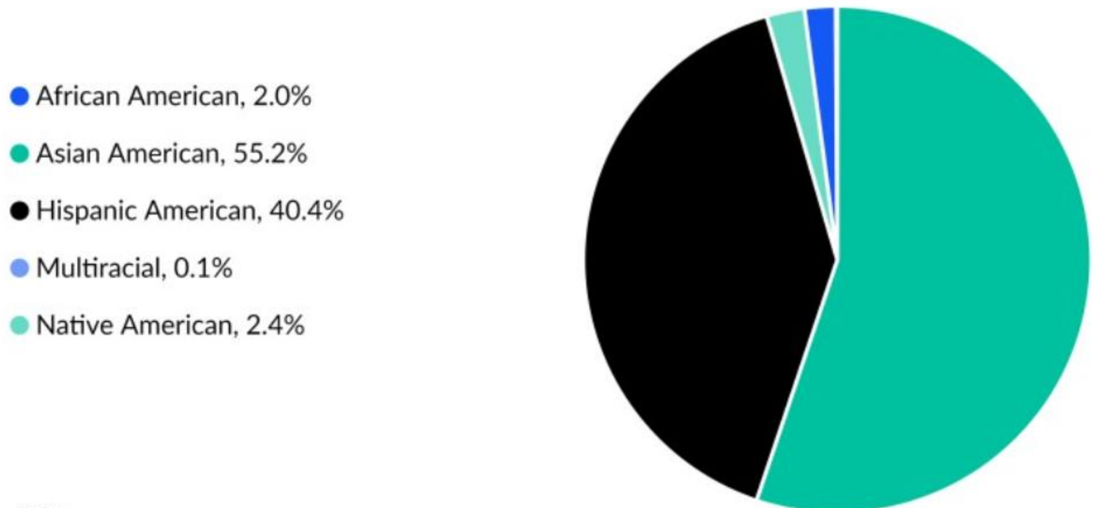
MDIs totaled $32.8 billion, Black-owned and Black-led banks had just $652 million in equity capital, or about 2% of the total, according to FDIC data.

At the end of the second quarter, only about $1 out of every $3,500 in equity capital in the U.S. banking system was at a bank owned or led by African Americans.

As a result of their undercapitalization, MDIs and CDFIs have had limited ability to make mortgage loans and small-business loans, invest in technology and compete with larger, better-capitalized banks.

Underrepresented

Banks owned or led by Black people accounted for only 2% of the $32.8 billion of equity capital in minority depository institutions as of June 30, 2021



Source: FDIC

A year and a half ago, corporate America's interest in minority banks and community development lenders ballooned following Floyd's murder, national protests against systemic racism and the growing realization that the pandemic was having an outsize impact on Black communities. Corporations made a range of commitments, financial and otherwise, in the name of equity, justice and closing the racial wealth divide.

According to an October 2021 Federal Reserve report, Black households hold 2.9% of the nation's wealth, even though they make up 15.6% of the total U.S. population.

In 2020, Bank of America pledged to invest $50 million in equity capital into MDIs. JPMorgan Chase, Citigroup and Wells Fargo also poured cash into the institutions.

Netflix said it would deposit up to $100 million in cash at financial institutions and organizations that support Black communities. And Yelp promised to deposit $10 million in cash into three banks that serve the Black population.

Around the same time, there was soaring interest in third-party funds that could put the capital they raise into MDIs and CDFIs in the form of both equity and deposits.

In short order, Local Initiatives Support Corp., a New York CDFI, stood up the $250 million Black Economic Development Fund to make deposits at Black-led financial institutions and to provide funding to minority businesses. The Opportunity Finance Network, a national network of CDFIs, launched the Finance Justice Fund, an investment unit that aims to raise $1 billion in capital for 350 CDFIs.

In Atlanta, organizers set out to build the Black Bank Fund, an investment fund to deploy Tier 1 capital into Black banks. MDI Keeper's Fund, a North Carolina-based private equity fund that has been in existence since 2015, received its first corporate pledge — $25 million from Block, the fintech company formerly known as Square — and has now raised $81 million out of its $500 million target.

Meanwhile, federal lawmakers were considering ways to help low-income communities and communities of color that were hit hard by the pandemic. In July 2020, Democratic Sens. Mark Warner and Cory Booker, then-Sen. Kamala Harris and Senate Majority Leader Chuck Schumer introduced a bill that would provide $12 billion of capital, liquidity and operational capacity to MDIs and CDFIs that serve those neighborhoods.

That legislation was ultimately part of the $2.3 trillion COVID-19 relief bill that passed in December 2020. The Treasury Department launched the Emergency Capital Investment Program three months later.

The program known as ECIP is an ambitious — and unprecedented — initiative to provide access to capital to communities that historically have been excluded from the financial system and suffered disproportionate levels of hardships during the pandemic.

ECIP will provide $8.7 billion in loans, grants and forbearance options directly to 186 MDIs and CDFIs, including both banks and credit unions, which will then direct the funding into small and minority businesses and consumers in low-income communities.

Treasury's program is oversubscribed

The availability of billions of dollars from ECIP has raised questions about whether some private-sector efforts are still necessary.

“I think a lot of people were saying, ‘Wait a second, do you even need these funds now with other investments coming in?’” said Aron Betru, a Milken Institute senior advisor who published a white paper in June about how corporations, banks, philanthropic organizations and governments can partner with MDIs and CDFIs. “I think people anticipated that $9 billion through ECIP would be more than enough.”

But it turns out that it wasn’t. Last October, Treasury noted that a total of 204 banks, credit unions and savings and loan holding companies applied for investments of $12.9 billion — meaning that ECIP received $4 billion more in requests than it could fulfill.

“What we ended up seeing was way over-subscription for that $9 billion,” Betru said.

The strong demand tells the organizers of Keeper’s Fund, the Black Bank Fund and the Mission-Driven Bank Fund, all of which are relatively new to the market, that there is still a substantial need for capital.

“What’s been proven over and over again is that the MDI sector is one of the most effective capillary systems to providing economic development and opportunities to communities of color,” said Kim Saunders, managing director of the Keeper’s Fund and a longtime advocate for getting capital into minority banks. “It’s clear there’s a need for capital, scaling and capacity-building, and that’s our focus.”

On Dec. 24 — just 10 days after Treasury announced the list of ECIP recipients — Keeper’s Fund completed its first MDI investment, said Saunders, who declined to say how much the fund allocated in its first round of deployments.

Optus Bank was among the beneficiaries. The $311 million-asset company, which is the only Black-owned bank in South Carolina, has raised $35 million in equity capital and received $200 million in new deposits since 2020, said President and CEO Dominik Mjartan.

It is also in line to receive $67 million in capital through ECIP, he added.

“I am thrilled and honored to be part of it,” Mjartan said about his bank’s participation in the Treasury-run program. “But this doesn’t change anything at all about the need for these funds. In fact, it highlights the importance of the transformational capital that needs to come into this space. The disparities are so deep and so entrenched that you could throw trillions of dollars at this problem, and it still would not be enough.”

The fact that Optus and other minority banks have received so much capital from large banks and Treasury isn’t deterring Saunders from her work with Keeper’s Fund. She pointed to the gap between the amount of money ECIP allocated and the dollar volume of total requests, as well as the fact that some minority banks weren’t eligible to apply for the Treasury funding.

“We are not concerned about the demand,” Saunders said.

‘Different pieces of the pie’

Neither are the organizers of the National Black Bank Foundation, which manages the Black Bank Fund, an investment unit that initially set out to raise $250 million to bolster capital levels at Black banks.

The launch of ECIP is “an immense positive” that is forcing the fund to review its strategy in order to have as much impact as possible, acknowledged the foundation’s co-founder and general counsel, Ashley Bell. The fund, which has not yet completed any equity investments in Black banks, is determining which banks still need capital and hopes to be in a position to deploy money by the second quarter, Bell said.

“There are some Black banks that did not receive ECIP [funding], so our goal is to figure out how to help them remain viable,” Bell said. “For those who have it, it’s a great opportunity, but for those who don’t, there has to be a safety valve there to make sure they are able to serve their communities.”

The fund’s organizers are also reviewing their original $250 million target. While there have been “firm commitments on a sizable portion” of that goal, according to Bell, organizers declined to provide a dollar figure.

While the National Black Bank Foundation reassesses its funding plans, it is continuing to bring Black banks into the fold when it comes to business deals and commercial relationships.

In late 2020, the foundation helped pull together 11 Black banks to make a $35 million syndicated loan to the Atlanta Hawks to refinance the team’s training and practice building. And it recently helped two Black-owned banks — Columbia Savings & Loan in Milwaukee and Citizens Trust Bank in Atlanta — participate in a $45 million hotel development deal in Milwaukee.

Big-bank investments and ECIP dollars have not changed the scope of the FDIC’s Mission-Driven Bank Fund, which was formally launched in September. The fund, which will drive capital investments to MDIs and CDFIs that pitch ideas to a fund manager, has set out to raise between $500 million and $1 billion.

So far, the fund has raised $120 million from Truist Financial, Microsoft and Discovery Inc., and it continues to seek partnerships with the private sector. The FDIC will serve in an advisory role to the fund, but it will not invest in the fund or be involved in the selection of the fund manager or investment decisions.

Truist and Microsoft, the fund’s anchor investors, are in the process of hiring a fund manager and expect to start taking pitches from banks in the second quarter, the FDIC said.

The mix of bank capital, equity from investment funds and ECIP allocations “provide different pieces of the pie,” said Betty Rudolph, director of the FDIC’s Office of Minority and Community Development Banking.

“All of these are needed resources and very complementary to support the really important work that MDIs and CDFIs have been doing for years and will continue to do,” Rudolph said.

In addition to the new capital, policy changes would also be useful, Elam said. She specifically mentioned adjustments to capital rules for minority depository institutions as well as tax credits to incentivize investments in them.

Given the capital surge that some banks are experiencing, some equity funds may find it more helpful to invest more in technology and other services that will support MDIs and CDFIs, rather than investing directly in the institutions, Elam said.

But she said the recent influx of capital “in no way levels the playing field when you’ve got centuries of undercapitalization.”

“It is a game-changer, but it’s the total package that we need to be thinking about,” Elam said.