The Battle to Keep America's Black Banks Alive

Amber Burton, Justin Scheck and John West
25-31 minutes

A half-century ago, the federal government set out to attack the racial wealth gap by supporting Black-owned banks. Policy makers hoped the banks would lend to Black communities sidelined by the mainstream financial system.

But five decades of federal financial and regulatory support have failed to boost America's Black-owned banks. The majority have disappeared under the burden of soured loans, bigger competitors created by mergers and financial downturns that hit small lenders hard. Fifteen years ago America had 36 Black-owned banks, government data show. Now there are 18.

And Black people still face obstacles to getting loans. Would-be borrowers in Black neighborhoods over the past decade have been less likely to have their home loans approved than borrowers in other neighborhoods, according to a Wall Street Journal analysis of federal data in the nine largest cities by raw Black population.

Those who do get home loans are likely to pay more than other borrowers on comparable loans. A FDIC survey found last year that 13.8% of Black households in America don't have bank accounts at all, compared with 5.4% of the overall population. The survey also found that 72.5% of all U.S. households used bank credit last year, but just 52.5% of Black households.

Now a new generation of entrepreneurs, companies and regulators is trying a different strategy. They are promising to strengthen Black-owned banks by building up their capital with private investments and giving them new ways to earn money with hundreds of millions in big corporate deposits. Their hope is that this approach will ultimately improve Black communities' access to capital.

Los Angeles's Broadway Federal Bank and Washington, D.C.'s City First Bank are planning to combine in a deal that would form the largest Black-owned bank in the U.S. Pictured is a Broadway branch in Los Angeles.

Federal authorities define Black-owned banks as lending institutions regulated by the U.S. government that have more than 51% of the voting stock in the hands of Black owners. Such lenders flourished during the early part of the 20th century as a key source of capital for Black borrowers. The Nixon administration offered support in 1969, leading to direct government deposits from the U.S. Treasury. The approach was part of what Mr. Nixon called in an executive order an attempt to "obtain social and economic justice" for minorities. In 1989 Congress ordered regulators to provide additional forms of technical support to Black-owned banks and other minority-run financial institutions.

Black-owned banks have succeeded in making capital more widely available in the sense that they approve a higher percentage of Black applicants' loans than other banks. But their impact on the communities they serve is increasingly limited by their small size and often precarious financial standing.

When regulators ordered Covenant Bank to raise more capital following the 2008-09 crisis, the bank's chairman said he burned through more than $2 million of his own money before the bank failed. He still has this rendering of a Covenant Bank in his office in Forest Park, Ill.

The reasons are both specific and systemic. Black-owned banks often believe they can do a better job assessing the risk of Black borrowers, but they tend to make riskier loans due to their deliberate lending to consumers shut out by mainstream banks. They also share many of the same problems afflicting small community banks: a limited number of branches, little money to invest in the type of mobile-banking technology that might attract new customers and an industry consolidation that increasingly puts more market share in the hands of megabanks like JPMorgan Chase & Co. and Bank of America Corp. The total number of banks insured or supervised by the Federal Deposit Insurance Corporation has declined by 45% since 2001, compared with a drop of 56% for the number of Black-owned banks over the same period.

As consolidation made big banks even bigger, it has become increasingly hard for small banks—Black and otherwise—to compete. That consolidation hasn't been a fix to the problems that Black banks were supposed to solve. A FDIC survey last year found Black households were about five and a half times more likely to be unbanked than white households, a slight improvement from a decade earlier.

The limitations of Black-owned banks intensified in the aftermath of the 2008-09 financial crisis, which was triggered by a housing bust. In Chicago, Milwaukee and New Orleans, four Black-owned banks that eventually failed were more likely to approve Black borrowers' home-loan applications than banks were overall during a period between 2007 and 2014, according to a Wall Street Journal analysis of federal home-lending data. But these banks never got big enough to significantly improve access to mortgages in their neighborhoods. None received more than 1.3% of all loan applications from Black borrowers in the Census tracts in which they were active during a period starting in 2007 and ending with their closures.

One of the banks that went under was Covenant Bank, which served a largely poor and Black community on Chicago's West Side. "We were trying to eradicate poverty," said its former chairman, the Rev. Bill Winston. "That was our endgame."

When regulators ordered the Chicago bank to raise capital to cover loans that went sour after the 2008-09 financial crisis, Mr. Winston said he couldn't attract outside support and burned through more than $2 million of his own money. The bank failed in 2013.

"The little guys don't have a shot," Mr. Winston said.

A New Push

Some big companies are trying to change the lopsided odds for Black-owned banks by becoming customers of the banks themselves. Their interest intensified after the May killing of George Floyd while in police custody. Both Netflix Inc. NFLX 0.19% and PayPal Holdings Inc. PYPL -0.89% said they would provide deposits to existing Black-owned banks, giving them a bigger financial cushion and more money to lend.

Due in part to this new push, assets at Black-owned banks rose about 10% in the second quarter of 2020 from the first. It was the biggest quarter-to-quarter change in two decades.

Corporate deposits are a stable, low-cost source of funding for banks. The more of these prized customers banks have, the greater capacity they have to lend. Netflix has committed $100 million to the effort, including $25 million to a community development nonprofit that will help deploy the funds via loans and deposits in Black-owned banks.

PayPal recently deposited $50 million in Black-owned Optus Bank in Columbia, S.C. as part of a $350 million push to support Black businesses, and Bank of America also bought a stake in the same lender. Optus Bank almost doubled its assets in the past year alone, to $155 million as of the end of June.

Assets aren't the only measure on the rise at Optus. Total net income was $2.8 million in the third quarter, up from $366,000 in the same year-ago period.

"Our goal is to have an impact on the financial health, access and generational wealth creation for underrepresented minorities," a PayPal spokeswoman said.

Dominik Mjartan, Optus's president, said the PayPal deposit allowed it to fund $40.5 million in loans through the Paycheck Protection Program, the federal government's coronavirus lifeline for small businesses. Some of the businesses—including an auto-repair shop that had to shut down earlier in the pandemic—would have closed for good without the funding, he said.

"You cannot solve 400 years of disparity with a deposit," he said. "But it can create movement."

Mr. Mjartan said Optus Bank is focused on serving people who don't fit the stereotypical mold of a borrower at mainstream banks. He recognizes that some of his customers' property value might be slower to recover after a recession or their credit scores might be lower due to systematic inequality, but said his bankers take the time to look beyond what's on paper.

"On paper would a traditional bank say they are more risky? Probably," he said. "But would we say that? No. For us their stories are more complicated. Their stories require our lenders to spend more time and really understand the unique circumstances of each person and then offer a solution that maximizes the chances of their success."

There are other initiatives under way to support more of these Black-owned institutions. One is from Ashley Bell, an Atlanta lawyer and former regional administrator for the Small Business Administration during the Trump administration. He is putting together a nonprofit that intends to raise $250 million to buy stocks in Black-owned banks, via an entity called the Black Bank Fund. The initiative is being led by Dentons, the law firm where Mr. Bell works, and consulting firm KPMG, and aims to buy nonvoting shares in Black banks.

The idea, Mr. Bell said, is to leave decision making power in the hands of the banks' Black owners while providing extra capital so the banks can significantly increase the amount of money they can loan. Mr. Bell said he is hoping the effort will help Black-owned banks increase their income as well as their services. Most such banks, for example, currently don't have wealth-management arms. "How can you create intergenerational wealth if you don't even offer that service in your community?" he said.

A new financial-services company in Atlanta is trying to bring new customers to Black banks partly through the prominence of its co-founders: former Atlanta Mayor Andrew Young and hip-hop artist and activist Michael Render, known as Killer Mike. Their company, Greenwood, will issue debit cards and offer online deposit services via accounts at other banks.

The recent history of Black banks can leave a person with a "sad and hopeless feeling," said Mr. Render, who started a #BankBlack campaign in 2016. Many Black people, he said, have felt marginalized by the mainstream financial system. "We've never been allowed to fully participate," he said. He argues there is widespread demand in the Black community for better financial services. "Black people have understood capitalism, at their core, since they were the capital," he said.

Rather than funnel capital into existing banks, Mr. Render said he wanted to start a business that would close some of the gaps between Black banks and their bigger competitors, starting with technology. Greenwood is planning to offer mobile-banking apps that will let users access accounts at small Black-owned banks as easily as they could access accounts at big mainstream lenders, taking away an obstacle to opening accounts at small banks.

Mr. Render said he is modeling the idea on the Greenwood neighborhood of Tulsa, Okla., a thriving Black business district that was razed by white mobs in 1921. Mr. Render said he was taken with the idea that Greenwood brought wealth to Tulsa's Black community in part by connecting it to the larger economy. He and Greenwood President Aparicio Giddins said Greenwood will offer accounts with Black-owned banks and mainstream banks, in part to link Black customers with the mainstream, and in part, Mr. Render said, because he is concerned that the 18 remaining Black-owned banks have limited capacity to take on large numbers of new customers.

A Black Banking Boom

William Washington Browne, an ex-slave, founded America's first Black-owned bank in Richmond, Va., in 1888.

The idea of lending specifically to Black Americans began with Reverend William Washington Browne, an ex-slave who started a fraternal organization to support Black enterprises and founded America's first Black-owned bank in Richmond, Va in 1888. By 1900, the Savings Bank of the Grand Fountain United Order of True Reformers had branches in 24 states. Regulators closed the bank 10 years later.

Black-owned banks boomed from 1910 to 1930, said Mehrsa Baradaran, a law professor at the University of California, Irvine, who researches Black banks. Citizens Trust Bank, located in Atlanta, and Industrial Bank, based in Washington, D.C., were two that resulted from this early burst.

In that segregated era, they were often the only banks that would lend to people in Black neighborhoods. For decades, mainstream lenders shut out minority communities through "redlining"—the now illegal practice of refusing mortgages for people in low-income and Black neighborhoods.

An entrepreneurial spirit born out of exclusion reverberated into the 1960s, Ms. Baradaran said. The Civil Rights era produced another boom of interest in Black banks, from activists and the government. Though Congress in 1968 had just outlawed "redlining," officials remained concerned that discrimination would continue. If mainstream banks wouldn't lend to minorities, the thinking went, then perhaps minority-owned lenders would help bring financial equality.

In 1969, the Treasury Department began depositing money in Black-owned banks to boost their capital so they could lend to communities that mainstream banks continued to shun. The Minority Bank Depository Program still encourages government agencies to deposit funds in minority and women-owned banks. As of 2020 there were 71 minority banks enrolled in the program and the total amount of deposits collected by the banks in fiscal year 2020 was $32.6 million.

In 1989, Congress passed more legislation that tasked the FDIC with providing technical support and advice to minority-owned depository institutions so they could continue to support underserved communities.

The Nixon-era policy of supporting Black-owned banks as a way of addressing lending inequities had a flaw, said Anne Price, the president of advocacy group Insight Center for Community Economic Development. Several dozen little banks couldn't possibly cancel out entrenched discrimination by the country's biggest lenders. Relying on Black-owned banks to solve the problem inadvertently absolved everyone else, she said.

"In a way, there were two markets set up: one for Blacks and another for whites," she said.

Black-owned banks now account for just 0.2% of all banks regulated by the FDIC, according to June 30 data. The last Black-owned bank to go under was City National Bank of New Jersey, which regulators seized in November 2019. Total assets at America's Black-owned banks were $4.5 billion as of June 30, according to the FDIC, down from $4.7 billion in 2005.

The largest Black-owned bank—a planned union of Los Angeles's Broadway Federal Bank and Washington, D.C.'s City First Bank—will have $1 billion in assets if that merger closes in 2021.

The FDIC's inspector general said in a 2019 report the FDIC achieved its goals by preserving and promoting minority banks and ensuring they remained minority led or owned. An FDIC spokeswoman in an interview said assets controlled by Black-owned banks haven't dipped since 2001 despite the fact there were twice as many of these banks then as in 2019.

At the same time, according to the inspector general's report, the technical support provided by the FDIC didn't seem to help minority banks stay open. The inspector general also cited a study from the Federal Reserve Bank of Chicago showing that Black-owned banks faced bigger challenges, like maintaining enough capital, to stay in business from 2011 to 2017 than other minority-owned banks.

The FDIC is now seeking new ways to help the remaining Black-owned banks stay healthy, a spokesman said. It is starting a fund run by an independent manager will assist companies that want to invest in minority institutions but may not know how. And minority institutions will be able to request support in the form of equity, help with troubled assets, or other investments. "This is by no means a panacea, but it's an important leap forward," he said.

'Just Let It Rot'

The problems of Black-owned institutions accelerated in the aftermath of the 2008-09 crisis, when their numbers contracted by 42% over 12 years—slightly more than the 38% drop for all banks supervised by the FDIC. In Milwaukee, the Black-owned Legacy Bank found itself burdened with troubled loans that were mostly caused by the economic downturn. Margaret Henningsen, one of the bank's founders, was trying to raise additional capital in 2011 when regulators decided the bank was no longer viable. It was acquired by another Black-owned lender, Seaway Bank & Trust Company. Seaway itself failed in 2017.

"It broke my heart," said Ms. Henningsen, "After watching Seaway take on other troubled banks, it became a troubled bank."

Seaway Bank & Trust Co. was a Black-owned bank that was seized by regulators in 2017 and had its assets sold to a new owner. One of its old branches operates under new ownership on Chicago's South Side.

Eighty-one miles south in Chicago, the crisis made life considerably more difficult for another Black-owned bank called Covenant. Its chairman, Mr. Winston, wanted to eradicate poverty and borrowed from a Black-owned bank in 1997 to buy an abandoned mall to house his congregation when mainstream banks wouldn't lend to him. A decade later, he and his parishioners pooled their funds to buy a bank of their own.

It began with optimism. With funding from his personal accounts and his parishioners, Mr. Winston's group acquired the tiny Community Bank of Lawndale, which had a single branch in a predominantly Black neighborhood. He came up with a plan to put a new branch in the mall his church bought—making it a convenient place for congregants to do business.

Over five years, Covenant extended more than $19 million in loans to a largely Black clientele. Bank employees also went to local churches to teach congregants the basics of finance.

Then the bank got caught in a downward spiral during the 2008-09 crisis as its customers struggled. Covenant would grant borrowers who couldn't pay extensions on their loans. These loans had to be downgraded on the bank's books, forcing the bank to raise more capital.

"The minority community is usually the first laid off," Mr. Winston said. "They can't pay on the loans they have."

Mr. Winston tried to sell additional shares in Covenant, but potential investors balked. He said he approached bigger banks and companies in the area to see if they would deposit money with Covenant, but didn't get any traction. So he put more of his own money in—more than $2 million in the end—to keep Covenant afloat.

Regulators shut down Covenant in 2013 and sold its assets to another Black-owned lender. Mr. Winston said he is still angry that some local media coverage blamed him for pushing congregants into a bad investment. He said he felt he was being criticized for trying to fix a system that he believes is stacked against Black borrowers and Black banks alike.

Liberty Bank & Trust Co., a Black-owned bank, acquired the assets of Covenant Bank in 2013.

"I got wiped out," he said. "I just got weary. I just couldn't hold it anymore. One of the board members said to me: 'Pastor, don't put in any more money. Just let it rot.'"

Searching for the Middle Class

In many ways, the struggles of Black-owned banks and small, community lenders are one and the same. Thousands of small banks have closed their doors over the last three decades, while the biggest banks have continued to grow.

America’s biggest banks spend tens of billions of dollars a year on technology. They offer a full range of financial services—credit cards, retirement planning, deal-making advice—that wealthy consumers and big businesses want and need. When those customers leave, tiny banks are left with lots of tiny accounts.

“What really would help us is if potential customers would look at our residential and commercial loan products,” said B. Doyle Mitchell Jr., the president and CEO of Black-owned Industrial Bank in Washington, D.C.

Industrial has been in Mr. Mitchell’s family for three generations, and was strong enough last year to acquire the closed City National Bank of New Jersey. In June, Industrial got a $5 million grant from Morgan Stanley.

But to thrive, Mr. Mitchell said, Industrial and America’s remaining Black-owned banks need something else: more middle-class borrowers. Small accounts carry the same expense as larger accounts, he said.

Small banks make money on the spread between what they pay depositors and what they charge borrowers. For banks to make a profit, the good loans must far outnumber the bad. Black-owned banks that cater to riskier borrowers often find themselves on the wrong side of the equation.

Mr. Mitchell also knows that the bank will need to capture the attention of younger Black borrowers who could essentially take their credit anywhere.

“We have focused on appealing to millennials and young entrepreneurs over the last five years with social media campaigns and new products,” said Mr. Mitchell. The bank is about to launch a new automated digital platform speeding up the process of approval of home loans and allows clients to apply online. “We’re making the investments,” he said.

The bank has found help from the government and one of the nation’s largest banks. In 2018, Citigroup Inc. became a mentor to Industrial Bank through the U.S. Department of the Treasury’s Financial Agent Mentor-Protégé Program. Industrial was the first to do work with the Department of Treasury through the program. It is a subcontractor to Citigroup, and Citigroup is serving as a mentor helping the bank learn how to manage risk and diversify its portfolio with more predictable and long term opportunities.

“It’s a long learning curve,” said Mr. Mitchell. “But it’s slowly beginning to bear fruit.”

For Citigroup, the partnership is part of its larger initiative to mentor and lend support to minority depository institutions. It now has six banks that it mentors.

“Anyone can give money, what we’re doing are things that will make a sustainable long term impact,” said Harold Butler, who leads the program at Citigroup.

Write to Justin Scheck at justin.scheck@wsj.com