FDIC PODCAST

SPECIAL SERIES

Banking on Inclusion

# The Impact of Minority Banks

**BRIAN SULLIVAN:** Hey, welcome back to the FDIC Podcast, a place where we talk about the U.S. banking system and how that fits into our own personal financial lives. I'm Brian Sullivan with the Federal Deposit Insurance Corporation. And today we return to the issue of inclusion in our banking system as part of a series of podcasts we're producing along with the National Bankers Association, a nearly century old organization representing minority banks in this country.

A quick housekeeping note, any opinions expressed here may not necessarily reflect those of the FDIC. Well, you've heard us on this podcast talk about these banks we call Minority Depository Institutions or MDIs. These are minority-owned and managed FDIC insured financial institutions, commercial banks, savings associations, they could be community development financial institutions, and even credit unions directly supervised by the National Credit Union Administration.

Together, these institutions primarily serve people in places where, truth be told, there is little or no *other* banking presence. Well, today we look at the impact these banks have. And let's begin by welcoming back Nicole Elam, president and chief executive officer of the National Bankers Association. The other NBA, if you will. Hi, Nicole, how are you?

**NICOLE ELAM:** Hello, Brian, I love that. The other NBA.

**BRIAN SULLIVAN:** Well, the first NBA, let's just call it that.

**NICOLE ELAM:** There you go, yes.

**BRIAN SULLIVAN:** Nicole, I'll be speaking with two economists shortly to dive into what the research tells us about these MDIs, but you work with these banks and represent their concerns and issues. What are the real-world social impacts these banks have?

**NICOLE ELAM:** Well, that's a great question. I think I want to answer it in terms of what everybody is talking about right now, and that is the racial wealth gap. Over the last two years, everybody has been talking about the racial wealth gap and how do you close it.

Well at the NBA, we believe that you cannot have a conversation about closing the racial wealth gap without talking about MDIs. And here's why, the biggest three drivers of creating wealth are first having access to financial services...it's really hard to create wealth if you don't have access to financial services. The second is owning a home, home ownership continues to be a huge driver of wealth creation. And the third is owning a profitable small business. The reality of it is, is that MDIs are at the center of all of those things.

**BRIAN SULLIVAN:** So when you look at what these MDIs are doing in these LMI communities, and for folks who don't know Low- and Moderate-Income is what LMI means. But when you actually look at the work that they're doing, what do you see, what's being done in these communities that wouldn't otherwise be done?

**NICOLE ELAM:** Yeah. I think one thing that's being done is that they're there. Right? So, there's a presence there. You have somebody that you can walk in and see.  The second thing that is being done is established relationships. I think that's really what separates our institutions from other institutions is that they have these deep, longstanding relationships in the communities.

And it's not a surprise, when you think about the genesis of where these MDIs came from. They were born out of racism because Black, Brown and immigrant communities could not go to mainstream financial institutions for their banking services. Now, a good real-world example of that is PPP.

When you think about the Paycheck Protection Program, PPP, the reality of it is it was a great program for small businesses, but unless you had an established banking relationship, your ability to access PPP was very limited. And when you further unpack that, to minority small business owners, even those that had established banking relationships with mainstream financial institutions, were not being served.

So, where did they go? They went to the minority depository institutions. Why is that? Because they were walking them through the process. They were telling them, this is what you need to do. This is how we get you prepared from start to finish. And that handholding, that deeply rooted established relationship, is what separates them. And that's what allows them to punch well above their weight. Because even though they're only 1% of the entire banking sector, they are serving Black and Brown communities at rates that far exceed mainstream financial institutions.

**BRIAN SULLIVAN:** Well, before we turn to our two economists, Nicole, just a final thought from you about just how important these banks are? And if not for these banks, what do you imagine these communities would be like?

**NICOLE ELAM:** Yeah. You know, people always ask me, MDIs were created because of racism, because Black and Brown communities could not go to mainstream financial institutions. And so the question is, do they still matter now? And the data shows that yes, they still matter. The data shows that mainstream financial institutions are still rejecting Black and Brown borrowers at a rate that is two times that of their White counterparts, even when they have the same credit profile. So, these institutions still matter. They are still saying yes when mainstream financial institutions say no. They are still the ones that are providing loan amounts at higher dollar amounts than mainstream financial institutions at lower interest rates. And so all of this shows why they matter and why they're so meaningful in these communities to help them build wealth by one, just providing them with access to financial services and two providing them with access to mortgages and small business loans.

**BRIAN SULLIVAN:** Nicole, thank you for joining us again.

**NICOLE ELAM:** Oh, thank you for having me. It's so great to be here.

**BRIAN SULLIVAN:** Nicole Elam of the National Bankers Association. Well, now let's turn to two economists who have studied the impact these banks have and the access to credit and capital they offer to families and businesses in these areas we've been talking about.

Kayren Chu is the Chief of Banking and Consumer Research at the FDIC and Kristen Broady is the Director of the Economic Mobility Project at the Federal Reserve Bank of Chicago. Hey, welcome to you both.

**KARYEN CHU:** Thank you, Brian.

**KRISTEN BROADY:** Thank you, Brian

**BRIAN SULLIVAN:** Kristen, I introduced you as the Director of the Economic Mobility Project at the Federal Reserve Bank of Chicago, tell us a little bit about what that job is.

**KRISTEN BROADY:** So, the purpose of the project is to advance research on the economic prospects of Americans with a particular focus on barriers faced by those with lower income. The project was launched to highlight and leverage the Chicago Fed's research, supporting efforts to strengthen and build resiliency in the economy as a whole.

**BRIAN SULLIVAN:** Karyen, tell us what the evidence tells us about the social impact these minority institutions have on low-to-moderate income communities. And maybe to begin with what are social impacts?

**KARYEN CHU:** Brian, that's a really good question. When we did our report, we looked at who these banks are serving. You know, are they serving the minority populations, that, you know, that, that correspond to the type of MDI and that they are and how, how does their service area, the demographics of who they serve compare with non-MDI banks, both small and large. We also looked at home mortgage lending and we looked at, you know, who are they lending to these MDIs versus, again, non-MDI, both small and large.

**BRIAN SULLIVAN:** Now is it fair to say that these banks, when you study *who* they're primarily serving, that they're punching above their weight as compared to other banks?

**KARYEN CHU:** As compared to other non-MDIs? Absolutely. So, for example, in 2016, if you look at the median African American MDI, 62% of the population in their service area were African American. And if you look at small community banks that are not MDIs, only 5% of their service area population is African American.

**BRIAN SULLIVAN:** Wow. Kristen we've long been told that MDIs, which can include all these other organizations in a punch above their weight. Still, is that, would you have found as well?

**KRISTEN BROADY:** So, I want to just give some context to when we talk about MDIs, how many there are and how much money they hold. So as of December 31st, 2020, the FDIC listed 142 minority depository institutions located in 29 states, Guam and Puerto Rico, and they had cumulative assets of $287 billion dollars. And of the 142 MDIs, they were only 18 Black or African American owned banks with combined assets of $4.58 billion.

So, we're talking about a small portion of assets compared to overall assets held by banks. And so I think we see that when we look at people by race and whether they have bank accounts or not banked, unbanked, underbanked; the White population in 2019, 86% were fully banked, for the Black population 54%, Hispanic, 68%. And then when we look at the other end, unbanked, only 3% of the White population, 14% of the Black population and 10% of the Hispanic population. The final thing that I'll say is that we see that there's less competition, for banks in Black neighborhoods. So all of that kind of goes together. We see fewer banks in Black majority neighborhoods. We see more people in those neighborhoods being unbanked or underbanked.

**BRIAN SULLIVAN:** Kristen. How do you, when you look at the evidence and from everything you've studied, how do you explain this gap? It's great that these MDIs are punching above their weights and all of these ways, but then it sort of calls into question why there is this gap.

**KRISTEN BROADY:** So, I guess if we go back in history, we, we know that one October 17th, 1888, Capital Savings Bank in Washington, D.C. became the first bank organized and operated by African Americans. And so we see later on that there's this increase in, in Black owned banks that between the end of reconstruction and the beginning of the Great Depression, over 130 Black-owned banks opened. So how do we get from 130 down to 18 or 20 whichever number it is? Right? So, so there are a number of different reasons. There were, you know, banks that combined or closed or got purchased by a non Black-owned banking company. We also saw the Great Migration happen where African Americans moved from the South to the Midwest. During the seven-year period between 1983 and 1989, the number of Black-owned banks to declined 22% while the total number of banks in the U.S. declined by only 12%.

And so we've continued to see things like this happening and so now we, we ended up with this smaller number and we end up with African Americans having less access. We also see the continuation of the wealth gap. That in 2016, the average White household had wealth that was 10 times greater than the average Black household. In 2019, that number had come down to 7.8 times greater. And when the next survey of consumer finances come up, comes out, we'll see what effect the pandemic had but all of those things, I think are things to think about.

**BRIAN SULLIVAN:** You have found that the COVID-19 crisis has exacerbated this problem? Has it not?

**KRISTEN BROADY:** I think what you're talking about is a problem when you consider broadband access, right. But yes, many, many banks and other stores and retail establishment did close at the beginning of the pandemic.

And so, when we look at who has access to broadband, or who's able to work from home and who isn't. We know that that Black, Native American and Latino populations are less likely than, than White and, and many Asian-American populations to have access to the internet. And if you don't have access to the internet and you don't have a bank account that makes it awful difficult to participate in the various types of access that fintech companies offer.

**BRIAN SULLIVAN:** Right and then you may then have to turn to these other products and services that may cost even more.

**KRISTEN BROADY:** Right.

Karyen as we, of course, we can talk all day about things like this. So we're going to wrap this up and I'll invite both of you Karyen and Kristen to, to point to some data point that is revealing to us to describe the state of our banking system and how accessible it is to *everybody*.

**KARYEN CHU:** Alright. Well, I, I think, since we've been talking about banks and, and, you know, credit access, maybe, some statistics I like to leave with you is data from our 2019 *How America Banks* report. In there we look at right, whether households have credit cards or a bank, personal loan or line of credit. Differences in bank credit use by race and ethnicity persist at every income level, so it's not just an income story. White households in this income category, about 82% of them had a credit card or a bank personal loan or line of credit. And that compares with less than 70% of African American households.

**BRIAN SULLIVAN:** Significant. Right. Kristen, how about you? What leaps out and reveals this gap to you?

**KRISTEN BROADY:** I think for me, it's a couple of things. It is the racial wealth gap, one. So, in the second quarter of 2020, White households held $94.04 trillion or 83.9% in household wealth. While according to the 2019 U.S. Census data and White people accounted for 60.1% of U.S. population. Comparatively Black people accounted for 13.4% of the U.S. population in 2019. And Black households held just 4.1% in household wealth. And so I think when we look at everything else, credit scores, access to banks, we really need to figure out a way to provide access for everyone so that, that we can see equity between people by race and by geographic location as well.

**BRIAN SULLIVAN:** Well, I, want to thank you both for just scratching the surface here. Karyen Chu, chief of banking and consumer research at the FDIC, Kristen Brody, the director of the economic mobility project at the Federal Reserve Bank in Chicago. Thank you both so much.

**KARYEN CHU:** Thank you. It's a pleasure.

**KRISTEN BROADY:** Thank you.