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## *Chapter 1*

# **For Us, by Us**

## Minority-Owned Community Banks and Credit Unions

**E**very few minutes, the 6 train rumbles overhead along the 1700 block of Westchester Avenue in the Bronx. Beneath a bright red awning, splayed out along the sidewalk in front of a small grocery store, there's a colorful array of fresh watermelons, bananas, pineapples, oranges, strawberries, and cabbages. Clocking in at about three thousand square feet, some might classify the grocery as a large bodega.

It's been a grocery for as long as anyone alive today can remember. New York City has about two thousand small, independent neighborhood grocery stores like this one,<sup>1</sup> and their customers are as loyal as it gets. There are items that locals get here every week that they can't get anywhere else—definitely not at big-box stores. Across New York, these little grocery stores often reflect the immigrant makeup of their surrounding community, giving their customers a sense of belonging in the big city.

In 1968, Enrique Caro, originally from Puerto Rico, took out a \$20,000 loan from Ponce Bank to acquire this single-story, two-store-front commercial property. Ponce was founded in 1960 by a group of Puerto Rican activists and business leaders in the Bronx who were fed up with existing banks, which were redlining their neighborhoods. The redlining had been happening since the 1930s, when it was largely

Italian immigrants in this neighborhood who were not considered to be an acceptable risk by the bankers. That opinion eventually became codified as federal policy guiding banks to avoid lending in areas “infiltrated” with “negroes,” “relief families,” or recent immigrants. By the 1960s, the neighborhood had become largely Puerto Rican migrants, and they experienced the same discrimination. There weren’t any bankers around who knew the neighborhood, who knew who lived and shopped there, and there weren’t any bankers who cared enough to get to know it. The language barrier provided another excuse.

Enrique ran the grocery store until the mid-1990s, when he retired and sold the business to a family in the neighborhood from the Dominican Republic, but he kept ownership of the building and rented the space to the new owners of the grocery. By 2004, Julio Sanchez had taken over the grocery from his brother-in-law. For years, Julio would half-joke to Enrique that one day he’d buy the building, and Enrique eventually made a promise that he would someday sell the building to Julio. Although he passed away before he could make good on that promise, Enrique’s family decided to honor his wishes. They approached Julio in the fall of 2021 with an asking price for the property—\$1.5 million. He had saved up some money in anticipation of this day, but not that much. Now he was worried that the family might sell the building to some speculative real estate investor who would jack up the rent and force the grocery store out of business. Julio had seen it happen before to others like him.

On the word of a friend, Julio got in touch with Barbara Arroyo at Ponce Bank. As she usually does, Barbara came out to visit the business, which is less than a mile down Westchester Avenue from her desk at Ponce Bank’s headquarters, or just two quick stops on the subway. It looked like, sounded like, and smelled like the little neighborhood grocery stores Barbara had grown up around in her parent’s neighborhood. Based on her assessment of this grocery’s history in the neighborhood, its previous few years of cash flow, and Julio’s years of success as owner-operator in an increasingly cutthroat grocery sector, Barbara was confident that Julio’s little neighborhood grocery store would be able to pay back its loan for the purchase of the building, regardless of Julio’s personal credit history. After all, the grocery store had been reliably paying

rent all these years. Like many of the small business owners Barbara meets, Julio needed some help with his bookkeeping and tax documents, so Barbara connected him with a new accountant and worked with him to clean up some of his recordkeeping. At her previous jobs working at big banks, she wasn't given the time and flexibility to work with clients in this way, but at Ponce, it's how she spends most of her time. On July 21, 2022, Julio walked up the street to Ponce Bank's headquarters to sign the closing papers on a \$1.1 million loan to buy the building he had long dreamed of owning. He's paying less now on his monthly mortgage than he had been paying in rent. For Barbara, it was just one of a dozen or so loans she closed in 2022.

Every neighborhood, every community, regardless of the race, ethnicity, or national origin of its residents, deserves to have this kind of access to credit that doesn't depend solely on credit scores or personal wealth. When they make loans, community banks in the United States have always considered broader factors like relationships, benefit to the community, potential for growth, and character—especially before the invention of credit scores in 1989. There are still thousands of community banks where bank loan officers, credit committee members, and board members make loans that depend on their relationships and their knowledge and instincts about the importance of a business in a community, like Julio's grocery store in its section of the Bronx. But Ponce is one of the very few such community banks whose ownership and leadership come from racial or ethnic minority communities.

Community banks owned and controlled by racial or ethnic minorities in the United States have always been few and far between. Legal scholar and banking reform activist Mehrsa Baradaran called the early 1930s “the golden age” of Black banking,<sup>2</sup> but even then only about 130 of the nearly 30,000 banks across the United States were Black-owned. Of the remaining 4,128 community banks in the United States in 2024, only 124 are classified by the Federal Deposit Insurance Corporation as a “minority depository institution”—a term that will become obsolete, as these “minority” communities will soon make up the majority of the US population. To be classified as a minority depository institution, either a majority of a bank's voting ownership must be of one designated racial minority group or the bank's board members and the bank's

target market must be predominantly one or a combination of minority groups. Among minority depository institutions today, 22 community banks are classified as Black, 22 as Hispanic, 19 as Native American, and 56 as Asian and Pacific Islander.<sup>3</sup>

While it's much more likely today than it was in past decades for non-Hispanic White-owned community banks to do business with people of other races and ethnicities, recent research reveals the ongoing starkness of the divide. Banks still tend to locate their branches in neighborhoods whose residents look like the banks' leadership or ownership, according to a joint analysis by researchers at Johns Hopkins University and the National Bankers Association, a national trade association for minority-depository institutions.<sup>4</sup> Non-Hispanic White-owned banks tend to locate their branches in predominantly non-Hispanic White zip codes, whereas Black minority depository institutions tend to locate branches in predominantly Black zip codes, Hispanic institutions in Hispanic zip codes, and so on. A follow-up study from the National Bankers Association found that minority-designated banks or credit unions far outperformed their nonminority counterparts in terms of lending to majority-minority census tracts.<sup>5</sup> Another pair of researchers, using publicly available residential mortgage data, found that almost 70 percent of mortgages from minority-depository institutions go to borrowers of the same race as the owners of the bank, and minority borrowers applying for mortgages at banks whose owners are of the same minority group are 9 percent more likely to be approved than otherwise identical minority borrowers in nonminority banks.<sup>6</sup> On the small business front, small businesses owned by people of color are just half as likely as White-owned small businesses to be fully approved for a loan, line of credit, or cash advance at a small bank<sup>7</sup>—a disparity that starts to make sense when you consider that community banks remain an important source of credit for small businesses, yet there are so many more community banks owned by or serving White communities.

It's hard to say how many community banks or credit unions should be designated as minority banks or credit unions, but their numbers today are far behind their shares of the population overall. The US Census Bureau's 2024 estimates say 42 percent of US residents identify as Hispanic or non-White.<sup>8</sup> If the percentage were the same for community banks

and credit unions, there would be 1,739 community banks designated as minority depository institutions (compared to 124 in reality) and about 2,000 credit unions with a minority designation (compared to 492 in reality).

The race and ethnicity of a bank's ownership and leadership still shape where a bank does business and with whom. Race and ethnicity shape the imaginations of loan officers and credit committees when it comes time to make a judgment call on whether a particular business or real estate project is likely to succeed and repay a loan. For all the numbers that bankers like to see before approving a loan, many lending decisions still come down to someone getting the benefit of the doubt, and in the United States today, it's still more likely someone gets the benefit of a doubt when they look like the person or people making the decision on a loan. Across the entire United States, there are still 4,004 non-Hispanic White-owned community banks whose loan officers and credit committees are giving that benefit of the doubt to those who look like their ownership and leadership, whereas just 124 minority-designated community banks are doing the same for those who look like their ownership and leadership. Ponce Bank is the only Hispanic minority depository institution based in New York City, a city where 2.4 million of its 8.3 million residents are Hispanic. There's only one Black minority depository institution based in New York, despite the city having 1.9 million Black residents. Meanwhile, New York City is home to 20 non-Hispanic White-owned community banks for a city with 2.6 million non-Hispanic White residents. In Baltimore, a metro that is 40 percent Black, there are 13 community banks, but only one is a minority depository institution, the Black-owned Harbor Bank of Maryland. In New Orleans, a metro that's 49 percent people of color, out of ten community banks, the only minority depository institution is the Black-owned Liberty Bank and Trust.

## Headwinds

The lack of banks created by and for communities of color in the United States is a product of design and history. By design, each community that wants a bank has to come up with its own startup capital for the bank.

Historically, it might be one successful merchant or builder or a group of previously successful business owners who would pool the wealth they had accumulated to provide startup capital for a bank, or a bank's founders might raise startup capital from their previous business connections. It didn't take an exorbitant amount of wealth to start a bank, but in the country's early decades, the vast majority of Black people in the United States were still violently enslaved and denied any opportunity to build up wealth for themselves. After the Civil War, Jim Crow laws relegated most Black workers to low-wage sectors like sharecropping or domestic work, hampering the ability of recently emancipated Black communities to accumulate enough wealth to start their own banks.

When it came to the potential for new banks to form among recently emancipated Black communities, the rise and fall of Freedmen's Bank did as much if not more damage than good. Congress chartered Freedmen's Bank in 1865 as part of a package of post-Civil War reconstruction efforts. The package initially included land granted to recently emancipated families, as well as a wide range of social programs, but in its final form, the bank was really all that remained. One of the bank's immediate goals was to provide a place for Black soldiers who had fought for the Union Army to deposit their wages, which for many of them was the first time they'd ever been paid for their labor. Initially, the bank was a success, opening accounts for recently freed slaves, Black soldiers in the Union Army, Black churches, Black mutual aid societies, Black business owners, and even Howard University. Because its charter came direct from Congress, it was allowed to open branches in multiple states, unlike other banks at the time, which were constrained to doing business only within the state where they were originally chartered or headquartered. The congressional charter also gave customers the impression that the bank was implicitly guaranteed by the federal government, even though that wasn't actually the case. From 1865 to 1872, Freedmen's Bank opened thirty-seven branches in seventeen states and the District of Columbia, and nearly \$4 million (equivalent to \$100 million today) was deposited in the bank by an estimated 100,000 individuals, the majority of whom were Black.<sup>9</sup> Freedmen's Bank also became known for hiring Black people as tellers and other branch-level staff and management, which helped instill trust in the bank from Black communities

while also imbuing knowledge in those communities about the day-to-day operations of a bank.

But Freedmen's Bank was structurally limited in its ability to make actual investments in Black communities. At first, the bank's charter only allowed the bank to invest in government securities, meaning that it couldn't make loans to Black people and businesses who held their deposits in the bank. Although Freedmen's Bank had hired many Black staff at the branch level, it was never actually owned by Black people, and its senior leadership and board of trustees were primarily White men. In 1870, the bank's trustees convinced Congress to amend the charter of Freedmen's Bank to allow for real estate lending, which the all-White executives of Freedmen's Bank promptly directed into speculative railroad and other real estate projects led by their friends and associates. Although 92 percent of Freedmen's Bank depositors were Black, 80 percent of the bank's loan dollars went to White borrowers who were often part of the bank trustees' business networks.<sup>10</sup> Almost all the loans actually violated the criteria for lending in the bank's charter, and more than 95 percent of delinquent loans were never paid, which suggests that the borrowers took out the loans knowing that there's a good chance they wouldn't ever have to repay them.<sup>11</sup> Desperate to maintain the bank's reputation, the trustees hired abolitionist icon Frederick Douglass as chief executive officer of the bank in March 1874. Douglass was unaware of the state of the bank's portfolio until after he took the position, and it didn't take him long to recommend shutting it down, which it did in June 1874. At the time, 61,131 remaining depositors still held nearly \$3 million in deposits at the bank. Only 20 cents of every dollar owed to those depositors was ever returned to them.<sup>12</sup> The whole debacle sowed a deep suspicion of banks among Black communities, which hampered the creation and growth of their own banks well into the twentieth century (some would say even into the twenty-first).

Facing all those headwinds, the first actual Black-owned bank in the United States didn't come onto the scene until 1888, when the United Order of True Reformers, a mutual aid group founded by formerly enslaved individuals in Richmond, Virginia, obtained a state bank charter. Following in those footsteps, by 1920 five other Black-owned banks had opened their doors in Richmond, including St. Luke Penny Savings Bank.

## Maggie

The daughter of an ex-slave and a White confederate soldier, Maggie Lena Walker (néé Draper) was born in Richmond on July 15, 1864. After the Civil War, during Reconstruction, Maggie was among the first Black children to attend public schools in Richmond's segregated public school system. When she was eleven years old, her stepfather died, and she started helping out with her mother's laundromat. Three years later, as a teenager, she became a member of the Independent Order of St. Luke, another mutual aid group founded by former slaves. Maggie eventually rose to become head of the Independent Order of St. Luke in 1899. At that moment, the organization was in danger of folding, with only a thousand members across fifty-seven chapters, \$31.61 in its coffers, and \$400 in debt to its name.<sup>13</sup> In 1901, Maggie gave a speech outlining her vision for revitalizing the order, which included establishing the order's own department store, a factory, a newspaper, and a bank. Following the model laid out by the True Reformers, Maggie raised the startup capital for St. Luke Penny Savings Bank from the members of her order, selling them \$1,247 in ownership shares of the bank, an amount equivalent to \$43,210 in 2023 dollars. On November 2, 1903, St. Luke Penny Savings Bank opened its doors on the first floor of the order's new headquarters in Richmond's historic Jackson Ward, making Maggie the first woman of any race in the United States to charter and serve as chief executive of a bank. On its first day in business, the bank opened 280 accounts holding \$8,000 in deposits, equivalent to \$279,137 in 2023 dollars. Although some account holders deposited hundreds of dollars, some deposited only a few.<sup>14</sup> The minimum deposit to open an account was \$1.

St. Luke Penny Savings Bank became known early on for its unconventional lending practices, created to meet the needs of Black households living under the South's oppressive Jim Crow laws enforcing racial segregation. It would make loans as small as \$5. Unlike most banks, which required 50 percent down payments for home loans with five-year maturities, St. Luke Penny Savings Bank accepted down payments as low as 10 percent. Typically, when loans reached maturity, banks expected borrowers to make a huge lump sum payment for the remaining balance on the loan, often forcing families to sell their home to make

that payment. Maggie's bank instead allowed families to refinance into a new loan, keeping them in the homes that were so hard for Black families to come by during the era of Jim Crow. The bank also relied on ad hoc credit committees that included members of the community as part of approving loans. It also made heavy use of asking borrowers to have one or more cosigners who could vouch for their character—and would be on the hook to repay the loan in case the borrower couldn't. When the Great Depression hit, Maggie's bank merged with two other struggling Black-owned banks in Richmond to preserve their customers' ties to a Black-owned bank, in the process changing its name to Consolidated Bank and Trust.

The racial wealth gap doesn't just explain why it's rarer for communities of color to start their own banks. It also helps explain why it's always been harder for these banks to survive. Consolidated Bank and Trust held the status of being the longest running independent Black-owned bank until 2005. The bank had been through some tough years, and it was under pressure from regulators to come up with a plan to raise additional capital from shareholders to avoid failure. In those situations, White-owned community banks may raise additional capital from family or others in the bank owners' social circles. The legacy of racial wealth disparities means that Black-owned community banks have much less capital to tap into from their ownership's networks. Facing those limitations, Consolidated Bank and Trust merged in 2005 with a nonminority bank, keeping its accounts open but ending its run as a minority depository institution. It would be a foreshadowing of what was to come as a consequence of the subprime mortgage crisis and Great Recession, which hit all banks hard—even if they weren't engaged in subprime lending. As of 2008, there were still 186 community banks classified as minority depository institutions (40 of which were Black institutions). By 2020, there were just 120 community banks classified as minority depository institutions (20 of which were Black).

## **A Mutually Beneficial Option**

Regardless of race or ethnicity, in situations where a community may not have enough wealth to start a traditional commercial bank, alternative models have historically emerged as a solution for providing access to

credit and basic financial services. Mutual banks were among the earliest of those alternatives. Unlike traditional banks, mutual banks don't have shareholders who purchase ownership shares in the bank and share in any profits that the bank might pay out at the end of every quarter. Instead, mutual banks are "owned" or controlled by their depositors, all of whom are invited to participate (but not necessarily vote) in the selection of board members who oversee and help run a mutual bank. Ponce Bank was originally chartered as a mutual bank in 1960, although it converted into a conventional ownership structure in 2021 (we'll come back to how and why that happened later in this chapter). Many minority depository institutions were originally chartered as mutual banks, including Carver Federal Savings Bank, the only Black minority bank headquartered in New York City.

Also known as savings and loan associations or building and loan associations (Ponce Bank was founded as Ponce de Leon Federal Savings and Loan Association), mutual banks historically started out with a social purpose in mind, although they've sometimes fallen short of their original intentions. Mutual banks were immortalized in Frank Capra's 1946 film *It's a Wonderful Life* starring Jimmy Stewart as George Bailey, who reluctantly took over Bailey Brothers Building and Loan, the fictional mutual bank George's father had started. The real story of mutual banks in the United States begins in 1816,<sup>15</sup> when the Philadelphia Savings Fund Society became the country's first mutual bank to receive deposits, followed the next year by Boston's Provident Institution for Savings. At that time, even though mainstream commercial banks were almost all locally owned, they often limited their services to business owners and wealthy families. Mutual banks started out as a way for working-class households—often recent immigrants—to pool their savings and earn a modest amount of interest while investing in one another's homes and businesses. They were clustered in the northeast United States because during the nineteenth and early twentieth centuries, when mutual banks became popular, the Northeast was the country's most populous region, with new immigrants constantly coming from Europe in waves. By 1914, mutual banks held a majority of deposits across the six New England states, including 76 percent of deposits in New Hampshire, 70 percent in Connecticut, and 53 percent

in Massachusetts.<sup>16</sup> In 1914, out of 640 mutual banks across the entire United States, 597 were in New England, New York, New Jersey, and Pennsylvania.<sup>17</sup> Today there are still 426 mutual banks, about half of them in the Northeast, with some in the Midwest concentrated in Ohio and Illinois.<sup>18</sup>

Nearly all mutual banks are also considered community banks, focusing on very specific metropolitan areas or rural counties, although some mutual banks are larger in size and scope. One infamous former mutual bank, Washington Mutual, grew so large that its failure helped spark the global financial crisis of 2007–2009. But most mutual banks are smaller, in part because they don't have profit-motivated shareholders who pressure leadership to keep profits growing every quarter.

For a mutual bank like Ponce, instead of getting startup capital from founders who buy ownership shares in the new bank, the founders each pledge to deposit a certain amount of money that they cannot withdraw from the bank for a set period of time. Unlike most bank deposits, pledged deposits are not covered by deposit insurance from the Federal Deposit Insurance Corporation. In lieu of startup capital from shareholders, the pledged deposits temporarily serve as a new mutual bank's regulatory capital—that's the dollar amount bank regulators require banks to set aside as a cushion against losses. The required amount is based on a proportion of a bank's overall assets. The minimum required ratio of regulatory capital is 8 percent, or roughly \$1 of regulatory capital for every \$12 in loans and other investments in the bank's portfolio. After several years, because they don't have to pay profits to shareholders, a successful mutual bank can pile up enough in retained profits that it can use those funds to replace pledged deposits as its regulatory capital. Unlike conventional stocks, pledged deposits don't go up in price. So, by the time a mutual bank has repaid its founders' pledged deposits, the founders have only gotten back what they put in, dollar for dollar, leaving the bank with no formal shareholders or owners. Instead, mutual banks are controlled by their depositors, who participate in the selection of the mutual bank's board of directors and may get to vote directly on certain major business decisions, similar to a credit union.

Ponce Bank's founders were rallied together by Enrique Campos Del Toro, a former attorney general of Puerto Rico. He'd previously

established a mutual bank in Puerto Rico, called First Federal Savings and Loan.<sup>19</sup> Upon learning of the plight of Puerto Rican migrants in New York, particularly in the historically redlined Bronx, he set out to find allies to help establish a new mutual bank to serve their community. Ponce's first board chair was Antonio Acosta Velarde, a physician who in the same year of Ponce Bank's founding was appointed to a new advisory board established by the mayor of New York City to help implement an expansion of the city's public assistance programs.<sup>20</sup> For many years, the South Bronx had its own George Bailey: Erasto Torres, long-time former CEO of Ponce Bank. The bank's founding board members recruited him from their beloved Puerto Rico to come and run Ponce Bank in 1961, and his tenure as CEO lasted until 2011. He passed away in 2013, but the bank he left behind remained Bailey-like, specializing in real estate lending for smaller landlords or small businesses like the grocery store that Julio Sanchez owns today. Ponce also grew beyond the South Bronx to serve growing Hispanic communities across the rest of the New York area. Erasto was known for maintaining long friendships with the bank's clients, like Cuban immigrant Jose Perez, who started out in the 1970s with just one shoe store and—with the bank's funding—eventually grew to ten locations across New York and New Jersey. Erasto and Jose would regularly meet for lunch on Arthur Avenue, the Bronx's famous Little Italy. Jose would bring along his son, James, encouraging him just to sit and listen. Once he was old enough, James would eventually open his first bank account at Ponce. James took over the businesses after his father passed away unexpectedly in 2000. Ponce Bank continued to invest in the Perez family's business, Josmo Shoes, which expanded into wholesale and now also includes several warehouses in New Jersey. In 2022, thirty-two years after James opened his first bank account at Ponce, the bank invited him to join its board—which still meets every Thursday to review the bank's recent activity and finances. Being a board member was much more intense and time consuming than James expected, but it's helped him come to appreciate the amount of time and effort it takes to provide access to credit for people and communities that other institutions aren't interested in serving.

As of December 2023, Ponce Bank had \$2.7 billion in assets, of which \$1.9 billion were loans—a ratio of 70 percent. That's actually on the low

side for Ponce, due in part to currently high interest rates, conditions set by the Federal Reserve as a way to combat high inflation by discouraging people and businesses from taking out new loans. In previous years, Ponce's loans have made up as much as 85 to 90 percent of its portfolio. Nearly all its lending is in real estate, which is typical for a bank that historically started out as a mutual bank. Its top lending category was multifamily residential—apartment buildings with at least five units, the kinds of buildings where most New Yorkers live.<sup>21</sup> Another big segment of Ponce's lending is in single-family housing, concentrated in New York City's outer boroughs of Queens, Brooklyn, and the Bronx.<sup>22</sup> Meanwhile, commercial real estate loans like the one Julio took out for his grocery store were about \$310 million of Ponce's portfolio as of 2023.

Another way to gauge a bank's connection to the community is its deposit base. How many accounts does the bank have, and what's the average amount in those accounts? As of December 2023, Ponce Bank had about 46,000 open accounts holding \$1.5 billion in deposits, an average of \$33,300 per account. About 98 percent of those accounts held less than \$250,000—and if you just count accounts holding less than \$250,000, the average per account is just \$19,000, most of which is in savings accounts. Out of \$1.5 billion in total deposits at Ponce, \$1.2 billion is in savings accounts, certificates of deposit, money market accounts, or other similar kinds of limited-access accounts that aren't used for typical day-to-day transactions. In its disclosure documents to investors, Ponce describes its primary deposit base as “a large and stable base of locally employed blue-collar workers with low-to-medium income, middle-aged, and with limited investment funds. Within the base of locally employed blue-collar workers there is a significant, and growing, portion of recently immigrated, younger, lower-skilled laborers.”<sup>23</sup>

Ponce Bank today is no longer a mutual bank. In 2021, it completed the long process for a mutual bank to “go public,” meaning that it is now a publicly traded company. To go public, a mutual bank's depositors first have to vote on doing so, with a majority required to approve the change. Then the mutual bank's existing depositors have first dibs on buying new ownership shares in the bank—essentially, they have an opportunity to turn some of their deposits into conventional ownership shares that they can later sell to other investors on the stock market. In

2017, on the eve of the bank going public, depositors held \$707 million in their accounts at Ponce. Existing depositors of Ponce Bank ended up buying all the ownership shares in the bank's initial public offering. By the end of the process in 2021, Ponce depositors had invested a total of \$218 million into their bank. As a publicly traded company, Ponce Bank retained its status as a minority depository institution since a majority of its board members are Hispanic and its customers in New York City are predominantly Hispanic.

Going public was not an easy decision for Ponce's leadership. There's a risk now that some larger bank or Wall Street firm eventually buys up enough shares from smaller shareholders that it can take control of the bank and start influencing it to act more like a mainstream commercial bank. The benefit of raising \$218 million from Ponce selling itself to its depositors is that those dollars have helped ensure that the bank can compete with mainstream banks that are now opening up branches and taking in deposits from neighborhoods they were ignoring back when Ponce Bank was founded. Although big banks might be taking those deposits, there are still loans to be made in these places that big banks either can't make or don't want to make. Ponce Bank today continues to find borrowers who otherwise would be left out, like Julio and his grocery store, making sure that at least some of the deposits from these communities support investments that benefit these communities in terms of businesses that serve them or buildings where they can afford to live. Even though there's a risk to going public, Ponce wouldn't have been able to reach as many new borrowers without the regulatory capital raised from doing so. Since 2017, Ponce Bank has more than tripled in size, although it is still ranked just seventieth in terms of market share of deposits in the New York City metropolitan area.

## **The Cooperative Alternative**

Rachel Macarthy is not your typical CEO of a community banking institution. One day in 2022, a long-standing account holder came into her bank looking for a personal loan. Rachel recalled that he'd paid off a previous loan and had also benefited from a program to skip a payment on that loan during the COVID-19 pandemic. But she also knew that

he had a DJ business, and in a conversation with him about this new loan, she found out that he was looking for funding to buy some new DJ equipment. He hadn't heard yet that Rachel's institution had recently launched a small business lending program, which meant if he applied for a small business loan instead of a personal loan, he could qualify for a larger amount based on his business plan and prior track record. He still needed to incorporate a limited liability company for his DJ business, but Rachel was more than happy to help him through that process so that he could get all the capital he really needed.

Days like that are becoming more frequent for Rachel, the CEO of New Covenant Dominion Credit Union. It's based in the Bronx, right in Ponce Bank's backyard. But the Bronx is a big place, and there's no reason Ponce Bank or any other bank has to have a monopoly on every single dollar of deposits or loans in the Bronx or across New York City. If a community can prove that it has enough unmet credit needs, even in Ponce's own backyard, there are different models for that community to try to meet those needs, including conventional community banks, mutual banks, or, in this case, a credit union. Chartered in 2007, New Covenant Dominion Credit Union also comes out of the long tradition of faith-based institutions starting credit unions as part of their broader ministry or community work.

The first credit union in the United States was St. Mary's Cooperative Credit Association, which opened for business on April 6, 1909, in Manchester, New Hampshire. Its organizers established the credit union to serve French-speaking immigrant textile mill workers whom banks were excluding at the time. One of the organizers was the pastor of a local Catholic church, and a local attorney offered his own home to house the credit union initially. Credit unions differ from banks in that they are structured as not-for-profit member-owned cooperatives, meaning that regardless of how much a member might have saved up in the bank, each member has just one vote over key decisions such as electing the credit union's board of directors. A credit union's members come from potential membership bodies—what credit unions call their “field of membership”—such as workers at the same company along with their families, members of a faith-based congregation or an association of some kind like a Rotary Club, or residents of a specific

geographic area. As not-for-profit enterprises, credit unions are exempt from federal taxes, and credit union board members are all volunteers—unlike conventional or mutual bank board members, who typically get a stipend for their time spent in board meetings or committee meetings.

Similar to community banks, credit unions used to be much more numerous than they are now. There were 15,412 credit unions in 1984,<sup>24</sup> compared to just 4,572 credit unions by the end of 2023.<sup>25</sup> As credit unions have consolidated, however, they've become larger on average. The average size of a credit union in 1984 was just \$9.5 million in assets,<sup>26</sup> whereas in 2024 the average size of a credit union ballooned to \$456 million in assets.<sup>27</sup> Credit unions have grown so much in average size that as a group they've gained a little ground in terms of market share. In 1984, all those credit unions combined held \$147 billion in assets,<sup>28</sup> compared with \$2 trillion in assets held by all banks collectively at the time.<sup>29</sup> By 2024, all credit unions combined held \$2 trillion in assets,<sup>30</sup> compared to \$24 trillion in assets held by all banks.<sup>31</sup>

As credit unions have grown larger, some of the largest among them have started acting more like banks—and not in the good ways. According to the analysis by reporters at CNN, the largest credit union in the United States, Navy Federal Credit Union, was found to be approving home mortgage applications from White members more than 75 percent of the time while denying the same applications to Black members more than 50 percent of the time.<sup>32</sup> The CNN analysis found that Navy Federal Credit Union even approved a slightly higher percentage of applications from White borrowers making less than \$62,000 a year than it did of Black borrowers making \$140,000 a year or more. Large credit unions have also taken up other conventional bank habits, like charging predatory fees and buying naming rights to arenas, stadiums, and performance venues. In 2022, California's largest state-chartered credit union, Golden 1, took \$24 million in one year of overdraft fees from its members while also under contract to pay \$6 million a year for naming rights to a professional basketball stadium in Sacramento.<sup>33</sup>

New Covenant Dominion Credit Union nearly quadrupled in size from 2019 to 2023, but it's still a very small credit union, with just \$3.4 million in assets. A majority of its members are Black or Hispanic, making it one of 135 credit unions designated as having two or more

minority groups making up a majority of their membership, according to the National Credit Union Administration, the federal agency that regulates credit unions and insures the deposits they hold.<sup>34</sup> There are also about 260 majority-Black credit unions. That's down from 389 majority-Black credit unions in 2013, the first year that the National Credit Union Administration's Office of Minority and Women Inclusion began producing annual reports to Congress on the numbers of minority-designated credit unions.

Black credit unions are more numerous than credit unions with other minority designations—just seventy credit unions are designated Hispanic, fifty designated Asian, and eleven designated Native American. That's just over 492 credit unions—out of 4,606 credit unions overall—that are designated under one or more minority groups. So, although there are many more minority-designated credit unions than minority-designated community banks, they're still strikingly rare compared to their majority-White equivalents. That pattern also reflects historic, systemic, racial disparities in wealth. Although it takes less startup capital to charter a credit union, raising required startup capital for a credit union still depends on members of a community having access to some kind of excess wealth they can donate to a credit union to use as its initial regulatory capital, whereas community banks selling ownership shares or mutual banks borrowing pledged deposits. As generous as communities can be, even communities of modest means, donations are always a smaller pool of potential dollars than savings or investments.

As rare or as small as they are relative to their White counterparts, Black credit unions have long been an underutilized resource. In a world still full of financial institutions that make a business out of preying on Black communities, many Black credit unions were created primarily as a way for members to have a trusted place to deposit their savings. That's especially true of the many credit unions attached to Black churches, like New Covenant Dominion. Many majority-Black credit unions have only part-time staff or are run by volunteers from a church congregation. They're open for business maybe two days a week, sometimes only one day, Sunday, when members could stop by before or after services to make deposits or withdrawals. Lending was a lower priority, especially during the many decades when Black credit unions couldn't

access the same federal subsidies for Black neighborhoods that White credit unions could access to support home mortgage lending in White neighborhoods. On the eve of the pandemic, in December 2019, New Covenant Dominion Credit Union's loans represented just 38 percent of its assets, typical of most majority-Black credit unions across the United States. But by that moment in time, the credit union had spent several years preparing and strategizing to boost its lending, including preparations to launch a small business loan program. One of the changes was opening up the credit union's field of membership beyond members of the church to include other nearby small businesses or nonprofits and any of their employees. When the pandemic hit, the credit union was positioned to help its community through some tough years. By the end of 2023, out of its \$3.4 million in assets, \$2.1 million or 67 percent of New Covenant Dominion's portfolio consisted of loans. About one-third of the credit union's loan portfolio now comes from its small business loan program, including the loan for the DJ whom Rachel helped in 2022. It's been a tremendous full-circle experience for Rachel, who grew up in the neighborhood around New Covenant Dominion Church, attended the church's grade school and high school, and went on to get a business degree at Howard University. She was a founding board member of the credit union and started working in the branch as a part-time teller, moved up to loan officer, became CEO in 2021, and in 2024 was part of a team of two other credit union staff members and one volunteer from the church.

## History Remains

Community banking institutions owned by or led by racial or ethnic minorities are not by themselves enough to build a more just economy for their communities. There are no such silver bullets, especially not when these communities are still denied equal access to living-wage jobs, equal access to lucrative government contracts for their businesses, equal access to public investment in everything from schools to parks to libraries to infrastructure, and more. But the ability to deploy credit within a community is an important part of a just economy that gets taken for granted, and it's about more than just the monetary value of

the lending itself. For non-Hispanic White communities, locally owned, locally controlled banking institutions fueled so much of their development and in doing so helped instill a sense of empowerment and economic self-determination in those communities. White communities often feared the possibility of non-White communities gaining that same sense of economic self-determination, so much so that they often terrorized and burned down thriving Black Wall Streets—from Durham, North Carolina, to Tulsa, Oklahoma—with the full blessing of law enforcement. A generation later, White communities came with Title I Slum Clearance authority and federal funding under the guise of so-called urban renewal to ram highways and other large infrastructure projects through thriving Black communities and other communities of color, marking another wave of irreparable damage to the economic self-determination within those communities. A generation after that, mass incarceration disproportionately undermined economic self-determination in Black communities by imprisoning a huge slice of their workforce and marking those incarcerated as well as many others with the scarlet letter of criminal records. Mainstream or White-owned financial institutions by definition can't contribute to any restoration of economic self-determination within Black communities and other systemically marginalized communities. Just as White communities saw their own institutions investing and supporting them for generations, these communities deserve to have their own institutions doing the same for them.

The past and present of community banking institutions in these communities stand as evidence that there has always been an impetus within these communities to have their own financial institutions. But the stories of these institutions also illustrate the particular challenges they face when serving communities that the rest of the economy neglects or discounts by design. Disinvestment from predominantly Black, Hispanic, indigenous, or immigrant communities has led to both physical and psycho-social trauma—crumbling buildings and shattered trust—that compounds the existing systemic challenges for financial institutions serving these communities. Community banking institutions, whether community banks, mutual banks, or credit unions, are not enough by themselves to overcome all that, but they are necessary for instilling that sense of economic self-determination. To accomplish that

work within the context of disinvestment and the weight of multigenerational systemic racism still surrounding them, banking institutions serving these communities need to be more than just a bank, and that's not a tagline—it's literally part of the blueprint some have already been putting into action.

## *Chapter 2*

# **The Blueprint**

## Filling in the Gap with Intention

**S**hannan Herbert grew up in Montgomery County, Maryland, just outside of Washington, DC. After graduating from Howard University with a finance degree, she took a job as a junior credit analyst at a mainstream commercial bank, assessing the risk of commercial loan applications, or what banks call underwriting loans. Through an on-the-job credit training program, Shannan got to know the common underwriting refrains, like the “five Cs” of credit: character, capacity, collateral, capital, and conditions. Bankers use these criteria to assess borrowers for creditworthiness. The terms are open to interpretation, and each bank can interpret them in ways that risk perpetuating racial disparities in access to credit. “Character” can be reduced to credit scores, or anyone who can bring enough of their own “capital” to a deal can overcome weaker assessments on the other Cs. Going through her mainstream bank’s credit training program, Shannan was taught, “This is policy. This is what we have to do.”

Shannan progressed along a linear career path in traditional bank underwriting. Credit officers and credit departments typically stay behind the scenes, in contrast with the loan officers on the lending team who are out cultivating relationships with clients. If the lending team is made up of the bank’s good cops—friendly faces to potential borrowers—the

credit team is made up of the so-called bad cops, the ones who seem like their job is to find any reason to deny a loan application. They're meant to balance each other out; loan officers are supposed to advocate for their clients, whereas the credit team's job is to protect the bank's depositors and shareholders from too much risk.

Shannan went on to earn an MBA with a specialization in finance and became one of the few Black women ever to rise to the level of chief credit officer at a bank. In 2019, after she moved to a new position as chief credit officer at City First Bank, a community bank based in Washington, DC, Shannan started to peel back the layers of the underwriting onion. Under conventional underwriting guidelines for commercial real estate, banks typically only loan amounts between 60 to 70 percent of the market value of the underlying property for such projects, requiring developers to go elsewhere, perhaps to their own pockets or their friends' pockets, to come up with the rest of what they might need for a project. It's a constraint that's severely limiting if you don't have access to personal wealth or wealth from family or friends. Black households today still have just one-eighth the median wealth of White households, according to the Federal Reserve.<sup>1</sup>

City First was different. It was offering real estate loans up to 90 percent of the value of an underlying property, reducing the amount that developers need to come up with on their own. That's good for Black developers, cash-strapped nonprofits, and tenant-owned cooperatives who don't have a lot of their own cash to bring to the table. Loans on those terms were possible because behind the scenes it's actually two loans: one from City First Bank up to the amount acceptable under traditional bank underwriting guidelines and a second from City First Enterprises, the bank's holding company. A bank holding company is a parent company for one or more banks. Most mainstream banks, about 84 percent, are part of a bank holding company structure.<sup>2</sup> Some bank holding companies don't do anything by themselves; they just serve as corporate entities within the ownership structure of the bank. In other cases, they're very active on their own, maybe selling insurance or doing investment banking for clients of the bank. City First Enterprises is one of the very few bank holding companies that are nonprofits, and it makes its own loans and operates other community development programs

using funds raised from philanthropic foundations, grants from public agencies, and profits from its ownership stake in the bank. Because they're affiliates, when City First Enterprises does make a loan in coordination with City First Bank, there isn't a separate application process or second set of documents to submit, making it all as streamlined as possible for the borrower. It's just one of the ways City First Bank and City First Enterprises work in tandem to make credit available to those who might not otherwise have access because of historical and ongoing discriminatory practices in conventional bank underwriting.

Shannan found it liberating to work at a bank that was structured in a way to overcome long-standing racial disparities in access to credit. While at City First, Shannan also helped launch Underwriting for Racial Justice, an initiative to connect chief credit officers at community banks, credit unions, and nonbank lenders across the United States, helping them learn from one another and spread these different loan policies and structures to even more lenders—within the group and beyond.

City First's corporate structure—and all it enables—is a product of the original intent of the founders to create a bank to serve historically redlined communities. Those founders first came together in 1993, in the basement of Foundry United Methodist Church, eight blocks north of the White House on Sixteenth Street NW in Washington, DC. It was a diverse group, largely but not entirely Black, who had come to know one another from their work in community development in and around the District. They were bankers, housing program administrators, nonprofit leaders, and affordable housing developers. Over the next five years, they incorporated the nonprofit and raised \$7 million in startup capital to charter a new bank specifically with a mission to support community development in and around Washington, DC. When the bank opened its doors in 1998, the District government made the first big deposit, placing \$5 million in an account at the new bank.

Fast-forward to 2022. In that year, City First Bank made \$304 million in loans, of which \$203 million were loans to people, projects, or businesses in low- to moderate-income neighborhoods; \$173 million were loans to create or preserve nearly fifteen hundred units of affordable housing; \$61 million were loans to Black-owned or Black-led businesses and nonprofit organizations; and \$48 million were loans made

in neighborhoods that were at least 90 percent Black.<sup>3</sup> City First Bank hasn't been making it all up as it went along. It has had the benefit of building on a blueprint from a bank on the South Side of Chicago where some of its founders in that church basement had previously worked, and it's not the only bank or credit union that has built on the same blueprint.

### **South Shore Bank**

In the early 1970s, a quartet with complementary backgrounds started working together around the idea of supporting community development in neighborhoods on the South Side of Chicago that had faced redlining and other forms of racial discrimination. Two were Black—Milton Davis, a leader of Chicago's chapter of the Congress on Racial Equity, and Jim Shelton, who was working in at the Midwest regional division of the Office of Economic Opportunity, a precursor to today's US Department of Health and Human Services. Two were White—Mary Houghton, who worked at a local foundation making grants to various community groups around Chicago, and Ron Grzywinski, a computer salesman turned community bank executive.

When a White-owned community bank in the South Shore neighborhood announced plans to move its headquarters to downtown Chicago, the quartet saw an opportunity. The bank's owners had largely been ignoring or dismissing credit needs as the racial makeup of the neighborhood shifted. Chicago's Black population had been expanding as part of the Great Migration, which started in the late nineteenth century as the Black population fled the Jim Crow South for jobs in the North and West. Prior to the Great Migration, 90 percent of African Americans lived in the South, but by the time it ended in the 1970s, a majority of African Americans lived outside the South. As they arrived in cities like Chicago, real estate brokers steered them to rent properties in the redlined neighborhoods they designated for Black folks, which quickly filled up. As Black families started pushing into nearby neighborhoods like South Shore, real estate agents began using tactics like "block busting"—using racist lies such as new Black neighbors being a sign of decline and falling property values as a way to convince White

families to buy new homes in exclusively White neighborhoods or suburbs, which White families could afford because they had access to federally subsidized home mortgages.

By the early 1970s, South Shore was 85 percent Black, and the quartet believed that the bank's owners wanted to follow the White families and businesses that had left the neighborhood. As with many significant business decisions at a bank, moving a branch requires approval from bank regulators. The quartet argued to bank regulators that the proposed move would violate the spirit of the laws under which the bank had been chartered. Bank charters, they argued, mandated a bank to serve the community where it took deposits, and if it moved its headquarters, it would no longer serve the South Shore residents who had faithfully kept its deposits in that bank. The law was on their side at the time, especially in Illinois, which had some of the most stringent geographic regulations on banks of any state—until the mid 1960s, banks in Illinois were only allowed a single location. The regulators ended up denying the application to move. The bank's owners ended up selling the bank to the quartet's newly created bank holding company, the Illinois Neighborhood Development Corporation, for \$3.2 million—a sum raised by selling \$800,000 in shares to private investors and borrowing \$2.4 million from another bank.

Once they acquired the bank, known then as South Shore Bank, the quartet set about enacting many of the ideas they'd been envisioning for the past few years. Through their new bank holding company, South Shore Bank's founders created a raft of affiliated subsidiaries to complement the core business of the bank. The other bank holding company subsidiaries included a for-profit real estate company, a for-profit small business investment fund, and a nonprofit entity that raised grant dollars in support job-training programs, small business incubation, and other social services that were strategically connected to the bank holding company's overall mission. The bank started making loans to the neighborhood's predominantly Black residents to buy homes in the neighborhood or to start and grow their businesses. Some of those businesses were contractors in commercial or residential construction and rehab, including plumbers, carpenters, electricians, roofers, and heating and ventilation installers. South Shore Bank identified and cultivated those

who showed potential to take on properties as local developers, starting them on smaller properties and increasing in scale as they gained experience and know-how. The job-training programs ensured that smaller “mom and pop” developers had construction workers ready to hire as they scaled up. The business incubator made sure that there were tenants to fill storefronts with businesses that served the neighborhood and kept commercial areas vibrant and crime to a minimum.

As another pillar of its strategy, South Shore Bank augmented the neighborhood’s deposits with deposits from sources beyond the South Side, from those who wanted to take accumulated wealth and intentionally invest it in ways that reflected their values, including religious values. Catholic orders of nuns, specifically, were among the first to start making these kinds of deposits in South Shore Bank, eventually followed by philanthropic foundations, wealthy families, and anyone else the bank could recruit based on its mission, and they came from all over the country. It became a way for those depositors to recognize—not just symbolically, but financially—that the wealth accumulated in their name over the years was never entirely theirs and that it at least partially belonged to those who lived in neighborhoods like South Shore whom the system had long denied the opportunity to accumulate the wealth they were partially responsible for creating through their labor and creativity.

Milton Davis lived around the corner from South Shore Bank, the only member of the founding quartet who actually lived in the neighborhood (although the others lived nearby). Milton could be found walking to and from work every day carrying a scale model of the Seventy-First Street corridor the bank was using to plan neighborhood investments together with residents, business owners, and the bank’s growing client base of local developers. At one end of the corridor stood the South Shore Cultural Center, formerly the clubhouse of the Whites-only South Shore Country Club, on the Lake Michigan waterfront. The country club shut down in 1974, and its liquidators eventually sold the building to the Chicago Parks District. City leaders originally planned to demolish the building, saying that “they don’t need that fancy building down there.”<sup>4</sup> South Shore Bank was part of the local coalition that rose up in protest to save the building. In the redevelopment proposal that the bank produced in 1974, it recommended revitalizing the building as

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