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"More Black Banks: Only Part of the Solution"

According to the US Federal Reserve Board, there were just 23 Black-owned banks at the end of March 2016.[1] Given our 45 million population, we have just one Black-owned bank for almost every 2.0 million Black Americans. Even when you account for all Black-owned bank branches (127), there is still just one Black-owned bank branch for every 354 thousand Black Americans. Therefore, it is transparent that it would be favorable to have more Black-owned banks.

What do we know about the banking industry? One thing that we know for certain is that it is a very profitable industry. Specifically, from 2000 to 2013 (the last year for which data are available), according to the US Department of Commerce, the banking industry averaged $83.7 billion in "Profits Before Taxes"—the 3rd highest of all 3-digit North American Industrial Classification System-type industries.[2]

This report on profits is particularly amazing because banks were supposed to be one of the hardest hit industries during the 2008-9 financial and economic crisis. Clearly, the banking industry knows how to price its services and organize its operations to squeeze out high profits.

In pricing its services, banks expend significant efforts to determine the financial risks that are associated with its customers, and to charge the riskiest customers more for services. Given that Black Americans are generally low on the totem pole of wealth and income, we are often—fairly and unfairly—viewed as risky clients, and we are charged higher rates (interest and fees). It is also true that, due to the aforementioned risk profile, Black Americans are often flat out denied banking services.

Would more Black-owned banks revise this scenario substantially? Not if Black-owned banks operate just like their White-owned counterparts.

We need Black-owned banks to operate differently! We comprehend fully that, given their customer base, Black-owned banks are likely to possess lower levels of assets and have more limited access to financial capital than White-owned banks. Also, we do not want Black-owned banks to engage in very risky lending practices that jeopardize their viability and sustainability. However, we want Black-owned banks to make every reasonable effort to: (i) absorb our deposits; (ii) pay a reasonable return on those deposits; (iii) finance as many legitimate and potentially profitable investment opportunities as possible in our areas of influence; and (iv) produce a reasonable profit for bankers.

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[1] See "Minority Owned Depository Institutions" at http://www.federalreserve.gov/releases/mob/current/default.htm.
[2] See 2000-2013 values for the "Credit intermediation and related activities" industry in National Income and Product Account Table 6.17D (Corporate Profits Before Taxes by Industry) at www.bea.gov.

The just described outcomes may be realized if depositors (investors) and bankers of Black-owned banks are willing to target lower-levels of returns and profits, respectively, than are typically paid out by White-owned banks.

Why should we ask this of Black investors and bankers? Because they are our brothers and sisters. They know our plight, and they know our needs. They also know, that, if we are to rise as a people, we need a reprieve from very expensive financial services, and/or no financial services at all.

Is this asking too much?

Without reservation or equivocation, the answer is No!

Do the research. If you are a student or scholar of the Old Testament (Taurat), then you will know that the Jews lived (and many still live today) under a law that requires no imposition of interest charges (usury) on fellow Jews (e.g., Deuteronomy 23:20). Look where Jews are today with respect to income and wealth.

Moreover, it is a known fact that, before the days of credit scores and automated financial risk analysis, White-owned banks charged lower interest rates to Whites than they did to Blacks all over the US. It is also common knowledge that many banking institutions were guilty of discriminatory lending practices (read charged higher interest rates and offered more unfavorable lending terms) against Black Americans (as opposed to White Americans) even as recent as the housing crisis that began in 2007. This fact is evidenced by the large fines that several banking concerns had to pay following the crisis. Look where White Americans are today with respect to income and wealth.

Therefore, it is not inappropriate for us to ask everyone who is associated with a Black-owned bank to stuff their pockets a little less because we are all in the process together to build a stronger economic and financial base in our areas of influence. At least this is not a request to "give until it hurts."

As we all commit to cooperating in the development and expansion of Black-owned banks, we should call upon our financial and economic scholars to study the literature and think creatively about how we can ensure growth and prosperity in our areas of influence without robbing each other. Clearly, we are clever enough to design and implement new economic and financial instruments and systems that are more egalitarian, yet produce returns that promote a virtuous circle of investment, growth, reasonable returns, and more investment.

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