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“The Truth About Black Banking”

On October 21, 2021, when **BlackEconomics.org** was featured during an [Internet radio program](#), a caller expressed concern about Black Americans’ unwillingness to bank Black. This commentary seeks to place Black banking in a realistic context.¹

For many Black Americans, “banking” mainly means flows (inward and outward) of cash and other highly liquid assets at financial intermediaries. Of course, lending and investing are also important components of banking operations. Economists generally refer to cash and highly liquid assets as “money,” and account for the related amount in the economy using an “M2” measure. The pertinent question is: How large is M2? At the end of September 2021, M2 was valued at about USD 21 trillion.²

What about Black America’s money? Many probably believe/assume that the estimated ~USD 1.6 trillion in resources (buying

power) said to be available to Black America could flow through Black banks.³ Theoretically, this is true.

However, as you know, many Black households have very tight budgets and are living, like so many other American households, from paycheck-to-paycheck. Therefore, even if most of the just-mentioned USD 1.6 trillion was deposited in Black banks, those funds would flow out quickly as payments for goods and services that Black Americans consume. To the extent that those payments go to non-Black Americans, then most of those funds escape Black banks shortly after deposit.⁴

The challenge for banks is to optimize their earnings while fulfilling Federal Reserve Board (FED) regulatory requirements. The FED requires that banks maintain sufficient reserves that satisfy a “reserves-to-deposits ratio.”⁵ After meeting reserve requirements, banks can use the remaining deposits to

¹ Readers may also find our earlier contributions on [Black banks](#) and on a push to increase [Black banking](#) to be beneficial.

² For a definition of M2 and to confirm the September 2021 value of M2, see the Federal Reserve Board’s “Money Stock Measures – H.6 Release;” <https://www.federalreserve.gov/releases/h6/current/default.htm> (Ret. 102721).

³ The Nielsen Company reports that Black American buying power reached USD 1.57 trillion in 2020;

<https://www.nielsen.com/us/en/about-us/community/african-americans/> (Ret. 102721).

⁴ We comprehend that banks can earn returns on deposits of even short duration by conducting short-term transactions/investments.

⁵ For example, if a bank has USD 100 in deposits and the “reserves-to-deposits ratio” is 0.10, then the bank must maintain USD 10 in reserves—as vault cash or in a reserve account at the FED.

conduct lending and investment activities to increase earnings.

An important question in a Black banking context is: What would be the level of deposits if all Black American households deposited their highly liquid assets into Black banks? For this purpose, we will not use the aforementioned USD 1.6 trillion spending power value because that level of deposits is transitory for reasons already outlined. Rather, we will compute a value for Black American bank deposits as follows.

First, we take an estimate of the average (mean) amount of liquid assets available to Black households from the FED's *Survey of Consumer Finances* for 2019, which was USD 1,500.⁶ We view this amount as what could typically be placed and maintained on deposit by Black households in Black banks. We then multiply the USD 1,500 value by the approximately 17.1 million Black households that existed in the US in 2019.⁷ Consequently, we can estimate that about USD 26 billion in highly liquid assets could be deposited in Black banks—if we all banked Black.

⁶ See Table 3 of Neil Bhutta, *et al* (2020), “Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances,” Federal Reserve Board; <https://www.federalreserve.gov/econres/notes/feds-notes/disparities-in-wealth-by-race-and-ethnicity-in-the-2019-survey-of-consumer-finances-20200928.htm> (Ret. 102721).

⁷ The 17.1 million Black households statistic is from the US Department of Commerce, Bureau of the Census, Table A-2. Households by Total Money Income, Race, and Hispanic Origin of Householder: 1967-2020; <https://www.census.gov/library/publications/2021/demo/p60-273.html> (Ret. 102721).

⁸ The 20 Black banks is a June 30, 2021 statistic from “Minority Depository Institutions” data that are maintained by the Federal Depository Insurance Corporation;

Now, let us back up a moment and discuss the characteristics of Black banks in the US. Sadly, there are now just 20 Black banks (depository institutions) that fall under Federal Reserve Bank regulations.⁸ Seventeen of these banks are actually owned by Black Americans. The remaining three banks have a majority Black board of directors and provide financial services in Black areas of influence. A key point to recognize concerning these 20 Black banks is that the total value of their assets was \$6.7 billion at the end of June 2021.⁹ Only one of the 20 banks held assets of over \$1 billion.¹⁰

Consequently, it is important to think what could occur if all Black American households decided to place all of our highly liquid assets (money) totaling about USD 26 billion in a set of 20 banks that now possess less than USD 7 billion in assets. Such a move would undoubtedly reveal capacity constraints and could generate accounting snafus that could jeopardize the credibility of Black banks—the absolute last outcome that we desire at this time.

Therefore, as a long-term strategy to engender financial independence and self-determination in Black American areas of

<https://www.fdic.gov/regulations/resources/minority/mdi.html> (Ret. 102621). It is important to note that other Black-owned/controlled financial institutions, such as credit unions and cooperatives, perform certain banking-like services.

⁹ The reference to “assets” should be interpreted to mean that banks hold cash assets in the form of deposits for which they also hold a liability to depositors. Also, banks may hold non-depository assets mainly in the form of debt securities, loans, equity shares, financial derivatives, accounts receivable, and nonfinancial capital assets.

¹⁰ In contrast, the largest US depository institution, J. P. Morgan Chase, held consolidated assets valued at nearly USD 3.2 trillion in June 2021. See “Large Commercial Banks,” Federal Reserve Board, June 30, 2021 release; <https://www.federalreserve.gov/releases/lbr/current/default.htm> (Ret. 102721).

influence, it seems most reasonable to call first—or at least simultaneously—for the development of more Black banks before attempting to motivate Black Americans to all bank Black.

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