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THE BLACK BANKS

An Assessment

of

Performance and Prospects

A Paper Presented By

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At the end of 1969, there were 22 banks owned or controlled primarily by Negroes in the United States. Several others were in the process of formation, and two of these had opened for business by the end of August of this year. In 1963, there were 11 black-owned banks, so almost one-half of these institutions have been started in the last six years.[1/]

These new banks -- especially those formed recently -- have been launched with the specific aim of fostering economic development in the black community. In a number of locations around the country,

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I am grateful to several members of the Board's staff for assistance in the preparation of this paper. Mr. Brenton C. Leavitt was responsible for the review of the supervisory examination reports on the black banks. Mr. Henry S. Terrell and Miss Harriett Harper assisted with the analysis of the banks' assets, liabilities, and operating results. Miss Jacqueline McDaniel was responsible for the computer programming necessary to obtain the data on which the paper rests so heavily.

1/ The banks are listed in Table 1, attached, showing location and year founded.

numerous groups are planning to establish similar institutions with the same objective. Charters are being sought from both State and Federal supervisors, and the movement is receiving strong support from large banks and other corporations as well as from many public officials. Moreover, a number of programs have been started to channel public deposits to the black banks to enable them to expand lending in urban areas.[2/]

Given the tempo of this movement and the enormously important economic development role which the black banks are expected to undertake, it appears vital that an objective and systematic appraisal be made of the capacity of these institutions to perform this task. This paper is devoted to such an assessment.[3/] The analysis has been carried out in considerable detail, but the general conclusions can be summarized briefly:

- Black banks trying to do business in urban ghettos appear to operate at a substantial disadvantage (even when compared with other banks of the same size) in terms of both operating costs and efficiency. For example, the margin of income over expenses in the black banks appears to be one-third to one-half that for banks in the country at large.

2/ For example, see "An Address" by Dr. Charls Walker, Under Secretary of the U. S. Treasury, before the 43rd Annual Convention of the National Bankers Association, St. Louis, Missouri, October 16, 1970.

3/ In two previous studies, I also examined the performance of the black banks: (1) "The Negro in the National Economy," in John P. Davis (Ed.), The American Negro Reference Book, Prentice-Hall, 1966, Ch. 5, pp. 251-336, especially pp. 296-307. (2) "The Banking System and Urban Economic Development," presented before a joint session of the 1968 Annual Meetings of the American Real Estate and Urban Economics Association and the American Finance Association, Chicago, Illinois, December 28, 1968.

The costs of handling a given volume of deposits in the black banks seem to run one-quarter to two-fifths higher than for other institutions.

- The black banks appear to be about one-quarter to one-third as profitable as the nation's banks generally. Aside from the high operating costs and low efficiency, the black banks experience substantially greater relative loan losses. In fact, loan loss rates at the black banks seem to be two-to-three times as high as at banks in the country as a whole.

- This experience, of course, is intimately related to the inherent risk of doing business in the urban ghetto: the high unemployment rates, low family incomes, the high failure rates among small businesses (compounded by high crime rates) make the ghetto an extremely risky place for small banks to lend money.

- At the same time, the black banks are handicapped by a severe shortage of management talent. The reason for this shortage is widely known: because of racial discrimination and segregation, Negroes historically were kept out of the economic mainstream and thus lacked the incentives to acquire a mastery of skills in economics, finance, accounting, and business administration on which the management of banks depends. While efforts are being accelerated to expand the supply of black bankers, the situation remains critical, and no significant improvement appears likely in the short run -- unless the black banks become more willing to employ a greater proportion of white workers.

- Because of this combination of handicaps, the black banks as a group appear to possess very little potential as instruments of urban economic development. A few of the banks have experienced noticeable success in tailoring their lending practices so as to lend a significant proportion of their resources to local borrowers -- while keeping loss rates under reasonably good control. In contrast, a number of the banks have been aggressive lenders in their local communities, and virtually all of them have experienced sizable losses. In fact, several of the banks in this group have earned little or no net profit in the last four or five years; a few of them have just about exhausted their original capital -- which had to be replaced at much higher cost and with much greater difficulty, including the necessity to seek capital funds outside the black community.

- On the whole, however, most of the black banks have found it wise to avoid concentrating their loans and investments in the ghetto. In general, the proportion of their total resources represented by total loans is substantially below that for banks in the nation as a whole, and their relative holdings of U. S. Government securities are much higher. In fact, the black banks as a group seem to channel as much as one-fifth of their total loans to borrowers outside their local communities; for several of them the proportion is in the one-third to two-fifths range -- and for one fairly long-established bank it is as high as one-half. While part of this export of funds may be a reflection of the normal quest for diversification, it also seems to reflect the exceptionally high risks of lending in the ghetto.

- From this assessment of the performance and prospects for black banks, I am convinced that the multiplication of such institutions should not be encouraged in the belief that they can make a major contribution to the financing of economic development in the black community. Instead, I am convinced that an alternative financing mechanism (that I suggested earlier) would be much more promising: it may be possible to achieve a substantial increase in the availability of risk capital in the ghetto by allowing large commercial banks to expand their acquisition of equity securities -- as they can do now in their operations abroad.

- Having expressed doubt about the potential of black banks as instruments of economic development, I do recognize that some members of the black community may wish to encourage them in any case: they may be a source of racial pride, and they may also render some marginal -- although high cost -- financial services. Under

> those circumstances, most of the black banks might be viewed primarily as ornaments rather than as vital instruments of economic development. Expressed alternatively, they might be compared to small, high-cost specialty shops -- catering to a limited segment of the market -- rather than to the large-scale department stores offering a full range of services to the community at large.

Black Banks and the Banking System: Overview

At the end of 1969, the 22 black banks had total assets of $259 million and total deposits of $230 million. (See Table 2, attached.) Thus, their share represented 0.049 per cent of total assets and 0.053 per cent of total deposits of all insured commercial banks in the nation. However, these modest proportions did reflect steady improvement; in 1958, they held 0.019 per cent of total assets, and in 1962 their share was 0.026 per cent.

For the most part, the more rapid expansion of the black banks can be traced to the recently chartered institutions. Six of the banks were founded before the end of the 1920's, one in the 1930's, two in the 1940's, and none in the 1950's. So, when a charter was issued to form a black bank in 1963, it represented the beginnings of an essentially new movement. Actually, Negro-owned commercial banks can be traced back to 1888, and by the early 1930's, 134 banks had been established, primarily in the South.[4/] Virtually all of these failed over the years, and the depression of the 1930's

4/ The history of Negroes in banking is an extremely fascinating one. Even before the Civil War, black people made efforts to launch banks. The most ambitious undertaking was the Freedmen's Savings Bank and Trust Company, sponsored by the Freedmen's Bureau of the Federal Government. Before the bank failed in the depression of 1874, it had established branches in 36 cities and had accumulated $57 million in deposits. The failure of the bank greatly damaged the confidence of depositors in Negro-owned institutions. See Gunnar Myrdal, An American Dilemma, New York: Harper & Bros., 1944, Vol. I, p. 314.

took a particularly heavy toll.[5/] In the early years of the most recent movement, most of the new institutions were national banks which obtained their charters as a result of the more liberal policies followed by the Comptroller of the Currency since the early 1960's. More recently, a number of black-owned banks have been founded on the basis of State charters -- whose issuance in most cases also reflects more liberal policies. It should also be noted that most of the new banks have been established in large northern and western cities with a heavy concentration of Negroes -- in contrast to the location of the older institutions primarily in the South.

Other data in Table 2 cast further light on the relative position of the black banks in the banking system. The typical black bank is about one-third the size of the typical bank in the country at large, the former having average deposits of roughly $10 million in 1969 compared with $33 million for the latter. Capital invested in black banks represented 0.048 per cent of the total for all banks. These institutions provided jobs for about 0.092 per cent of all workers employed in insured commercial banks.[6/]

5/ A number of the black banks were bought by white people (either because owners could find no other buyers or because they got into serious financial difficulties and bank supervisory authorities forced a sale) and were thus "lost" to the black community. Recent examples are Citizens and Southern in Philadelphia, Pa., and Crown Savings Bank, Newport News, Va.

6/ By comparison, in 1966, there were about 20,000 Negroes employed in all commercial banks, representing about 4.1 per cent of total employment of 473,000. See Andrew F. Brimmer, "Employment Patterns and the Quest for Equal Opportunity in Banking," a paper presented before a Conference on Bank Employment Practices, sponsored by the U. S. Treasury Department and the Michigan Human Relations Commission, Lansing, Michigan, May 22, 1968, Table 2.

There were about 42 employees in the typical black bank compared with 67 in the average bank in the country at large. Thus, while the average black bank was approximately one-third the size of the national average -- when measured on the basis of total deposits -- it was more than three-fifths as large in terms of the number of employees. In 1969, the black banks held about 0.045 per cent of total loans outstanding at insured commercial banks. Their share of real estate loans was somewhat higher (0.067 per cent) and their share of loans to individuals and commercial and industrial loans was somewhat smaller (0.035 per cent and 0.033 per cent, respectively).

The modest position of the black banks is also highlighted when compared with the role Negroes play in the national economy. As shown in Table 2, Negroes constituted 11 per cent of the total population, 12 per cent of the labor force, and they earned about 6 per cent of aggregate money income in 1969. Furthermore, it is estimated that in 1967 Negroes owned about 2 per cent of the assets accumulated by American households. Their share of accumulated equity in homes, businesses, and farms was somewhat larger (2.5 per cent), while their share of financial assets (bank deposits, Government bonds, and corporate stocks) was much smaller -- 0.7 per cent.

The fact that Negroes owned about 1.1 per cent of the total deposits in banks and other financial institutions (compared with the black banks' holding of only 0.053 per cent of all insured commercial bank deposits) should be especially noted.

In conclusion, it is clear that there is a sizable short fall in the Negro's share of aggregate money income and assets accumulated by households in the United States. Nevertheless, it is not as striking as the gap in the black community's ownership of banking institutions. The bench marks sketched in this overview should be kept in mind as the analysis proceeds.

Costs and Operating Efficiency in Black Banks

Against this general background, the performance of the black banks has been examined in detail. In this part of the analysis, the objective was to assess the costs and efficiency of operations in the black banks compared with all member banks of the Federal Reserve System.[7/] For this part of the inquiry, detailed information was available for 19 of the 22 black banks as of December 31, 1969. Of this number, six were Federal Reserve member banks (including five national and one State-chartered bank), and 13 were State-chartered nonmembers. Because of the need to hold nonearning cash reserves, Federal Reserve member banks are faced with an additional factor affecting their behavior, and it seemed preferable to distinguish among them on the basis of System membership. As already indicated, the black banks are small institutions -- ranging from $1.4 million to $36.7 million of total deposits in

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7/ In carrying out the study, considerable use was made of statistical information collected by Federal bank supervisory agencies in the Consolidated Report of Condition for December 31, 1969. This is the "Call Report" submitted each quarter by all insured banks.

1969. For this reason, the banks were grouped by size of deposits (under $10 million and $10-50 million -- and over $50 million for all member banks). Information relating to costs and operating efficiency is shown in Tables 3 and 4.[8/]

Black banks trying to do business in urban ghettos appear to operate at a substantial disadvantage (even when compared with other banks of the same size). In 1969, operating costs in black banks absorbed 93 per cent of operating income -- against 78 per cent for all member banks, as well as for those with total deposits under $50 million. Thus, the margin of income over expenses in the black banks was about one-third to one-half that for banks serving the country at large. (See Table 3.) This relative disadvantage can also be traced in several measures of efficiency. In 1969 (as shown in Table 4), operating expenses in black banks amounted to $15 million, compared with $19.5 billion for all Federal Reserve member banks and $3.4 billion for member banks with deposits under $50 million. These operating expenses were associated with $351 billion of total deposits at all member banks, $66.4 billion at member banks with deposits below $50 million, and $230 million at black banks. Thus, the black banks, with 0.065 per cent of total member bank deposits, had expenses equal to about 0.077 per cent of member banks' operating costs. Compared with member banks with deposits under $50 million, the black banks' share of deposits was 0.346 per cent, and their share of operating expenses was 0.441 per cent.

8/ Principal assets and liabilities of black banks as of December 31, 1969, are shown in considerable detail for each bank in Tables 12 and 13. These data are taken from that part of the Report of Condition which each bank must publish individually.

Expressed differently, as shown in Table 3, black banks' operating expenses were equal to 6.5 per cent of total deposits, in contrast to 5.6 per cent for all Federal Reserve member banks and about 5.0 per cent for those with deposits under $50 million. Thus, the costs of handling a given volume of deposits in black banks seem to run one-quarter to two-fifths higher than for other banks of similar size.

As mentioned above, black banks seem to be much more amply staffed than other institutions of similar size. This results in considerably higher labor costs for a given volume of banking activity. In 1969, wages and salaries accounted for almost one-third of the operating expenses in black banks, compared with around one-quarter in Federal Reserve member banks regardless of size. Fringe benefits for officers and employees added proportionately more to labor costs in all member banks than they did at black institutions, but in the $10-50 million size group the ratios were approximately the same. Overhead costs (including occupancy expenses of bank premises, furniture, and fixtures, etc.) absorbed a somewhat larger share of operating expenses at black banks than at member banks (11.6 per cent and 10.0 per cent, respectively), although the proportion was slightly lower at all banks with deposits under $10 million.

The largest single category of expenses for the average Federal Reserve member bank -- that is, interest paid on time and savings deposits -- accounts for a much smaller proportion of operating costs at black banks than at other institutions. For black banks as a group, as shown in Table 3, the ratio was just under 30 per cent compared with 40 per cent for all member banks and a slightly higher percentage for member banks with deposits under $50 million. The figures also suggest that black banks pay somewhat lower interest rates to owners of time and savings deposits than do Federal Reserve member banks. For all member banks, the average rate paid in 1969 was 4.4 per cent compared with 3.1 per cent for black banks. There was little variation among black banks by size or Federal Reserve membership status. However, reflecting the high market rates paid on large denomination, negotiable certificates of deposit (CD's), the average rate at member banks with deposits over $50 million was 4.7 per cent. For member banks with deposits below $50 million, the average rate was about 3.5 per cent -- still somewhat higher than for black banks. In 1969, most Federal Reserve member banks -- especially the large institutions -- bid aggressively to attract funds, and the marginal cost of money -- that is, the extra cost of obtaining additional funds -- rose sharply to 2-2½ times the average rate paid on time and savings deposits. For black banks, the marginal cost of money climbed much more moderately -- by one-third to one-half above the average interest rate paid.

In other words, from the point of view of depositors, the black banks paid somewhat lower rates on the average and raised their offered rates to a lesser extent as market rates advanced under the impact of monetary restraint. Thus, the black institutions represented a somewhat less advantageous place in which to deposit savings, compared with other banks of similar size.

In conclusion, a major share of the higher operating costs experienced by the black banks can be traced to the high cost of handling a relatively large number of small accounts. Another major share arises from the significant volume of losses on loans incurred by these institutions -- a situation discussed in some detail below. The black banks as a group (as shown in Table 10) attract a much larger proportion of their total deposits in the form of time and savings accounts than do all Federal Reserve member banks. But for all black banks the proportion is roughly the same as that for member banks with deposits below $50 million. However, it appears that the time accounts at black banks include a far larger proportion of small, individual savings accounts and consumer-type time deposits. They tend to have only a few of the large denomination CD's in which many corporate and public treasurers invest their liquid balances. On the other hand, some of the black banks (and especially several of the larger institutions in major cities) have sought actively to obtain corporate and public demand deposits, and they have been reasonably successful.[9/] Yet, the relatively large number of modest time

9/ The black banks, mainly through the National Bankers Association, their trade association, made an effort to persuade the U.S. Treasury to modify the management of Tax and Loan Accounts to permit funds to remain with the black banks for a longer period of time -- and thus enable the latter to make more local loans. This was rejected as being inconsistent with the primary purposes of the Tax and Loan Accounts -- which it was. See speech by Under Secretary Walker cited in footnote 2.

accounts in the black banks necessarily imposes on them substantially higher operating cost -- without providing a commensurate volume of earning assets.[10/]

Profitability of Black Banks

The black banks as a group appear to be about one-quarter to one-third as profitable as other banks of the same size -- but serving the public at large. The main explanations of their lower profit rates are clear: aside from the high operating costs and low efficiency discussed above, the black banks experience substantially greater relative loan losses.

In Table 5, several measures of bank profitability are shown, along with principal sources of banks' operating income. In general, black banks receive a noticeably smaller share of their operating income in the form of interest receipts. To some extent, this reflects the smaller proportion of their resources invested in loans. In 1969, interest income at the black banks made up just under 80 per cent of operating income while at all Federal Reserve member banks the ratio was just over 85 per cent. Among member banks, there was little variation by size of bank, but among black banks -- for both Federal Reserve members and nonmembers -- the

10/ For example, in 1968, one of the largest black banks reported that its average time deposit was about $300, while it typically needs the earnings from a minimum account of $600 just to break even.

banks with total deposits under $10 million obtained a noticeably smaller share of income in the form of interest. When interest income on loans is looked at separately, the relative gap between the black banks and Federal Reserve members is even larger -- 54 per cent and 68 per cent of total income, respectively. Among Federal Reserve members, interest on loans as a percentage of total income rises directly -- and strikingly -- with size of bank; there appears to be little or no such variation among black banks.

Black banks obtain a significantly higher proportion of their current operating income from service charges than do Federal Reserve member banks -- even of the same size. In 1969, service charges provided just over 3 per cent of the operating income of all member banks and 5 per cent for those with deposits under $50 million. For all black banks the proportion was 12 per cent, and it was somewhat higher (16 per cent) for nonmember black banks. Historically, the relative importance of income from service charges has been declining among Federal Reserve member banks -- as well as among all insured commercial banks. However, this source has become of greater significance for black banks. Again, given the heavy costs of handling a large number of small transactions, the black banks (and particularly some of the recently chartered ones) have found it necessary to apply service charges to a much larger proportion of their accounts. For example, if one expresses income from service charges in 1969 as a percentage of total deposits outstanding at the end of the year, the results indicate that such charges represented about 4.0 cents per $100 of deposits for all black banks, 3.3 cents at black banks with deposits in the $10-50 million range, and 6.3 cents for black banks with deposits below $10 million. For Federal Reserve member banks, the corresponding figures were 3.3 cents for all members, 2.8 cents for banks with deposits over $50 million, 4.8 cents for those in the $10-50 million range, and 3.1 cents for those with deposits under $10 million.

Turning to the overall profitability of black banks, the evidence in Table 5 indicates clearly how far the black banks lag behind other banks in the nation. In 1969, operating income of all Federal Reserve member banks represented 1.27 per cent of their total assets, and the rate was essentially the same for member banks in different size groups. For all black banks, the rate was 0.37 per cent of total assets, and it was 0.43 per cent for black member banks. Operating income was 17.1 per cent of bank capital for all Federal Reserve member banks, and the rate rose somewhat with bank size. The rate for black banks was 5.1 per cent, roughly one-third that recorded for all Federal Reserve members as well as for those with deposits under $50 million. However, among black banks, there was little variation by size of bank.

Among black banks, Federal income taxes take a much smaller bite out of income than is the case for Federal Reserve member banks. For the black banks, income after taxes (but before transactions in securities) in 1969 represented 0.28 per cent of total assets (compared with 0.37 per cent before taxes); the rates of return in relation to bank capital were 3.9 per cent and 5.1 per cent, respectively. For all Federal Reserve member banks, the rates of return on assets were 1.27 per cent before and 0.85 per cent after taxes. In relation to bank capital, the rates were 17.1 per cent before and 11.4 per cent after deduction of applicable Federal income taxes.

When net gains or losses from transactions in securities (and a few other specific transactions) are added to (or deducted from) after-tax income, the resulting amount is the net income of the bank. This is the figure which spotlights the overall performance of the institution. Measured with this yardstick, the black banks appear to do less than half as well as Federal Reserve member banks -- even when banks of the same size groups are compared. In 1969, the black banks' net income was 0.31 per cent of total assets and 4.2 per cent of capital accounts. For all Federal Reserve member banks, the ratios were 0.80 per cent and 10.8 per cent, respectively. For member banks with deposits under $50 million, the corresponding figures were 0.87 per cent and 10.5 per cent.

To a considerable extent, as already mentioned, the relatively poor performance of the black banks reflects the heavy losses on loans which they have incurred. Some insight into the differential impact of losses on black banks is provided by several indicators in Table 4 relating to their loss experience. In 1969, black banks set aside an amount equal to 7.3 per cent of their operating expenses as provision for loan losses. The percentage was higher for black banks with deposits under $10 million -- especially so for black Federal Reserve member banks in this category where it was 13.0 per cent. In contrast, Federal Reserve member banks set aside a sum equal to 2.1 per cent of their operating expenses to cover loan losses. For the largest member banks (with deposits over $50 million), the proportion was 1.9 per cent; it was 3.7 per cent for member banks in the $10-50 million deposit range, and 4.3 per cent for those with deposits below $10 million. Thus, the provision for loan losses in relation to operating expenses of Federal Reserve member banks was substantially smaller than for the black banks in every size group.

It is even more instructive to compare the amounts set aside to cover loan losses with the banks' net income.[11/] For all Federal Reserve member banks, in 1969, the ratio was 11.4 per cent, and it declined sharply as the size of bank increased -- from 30.0 per cent for member banks with deposits under $10 million, to 20.0 per cent for those in the $10-50 million range, and to 10.7 per cent for those with deposits over $50 million. In striking contrast, for black banks, the provision for loan losses was 137.5 per cent of net income. It was 140.0 per cent for black banks with deposits of $10-50 million and 100.0 per cent for banks with deposits under $10 million. For black member banks, the ratio was somewhat smaller (120.0 per cent) than for all black banks combined. In actual amounts, the black banks had net income of $800 thousand, and they set aside $1.1 million to cover loan losses, in 1969. For

11/ Again, it must be emphasized that the provision for loan losses is included in operating expenses and thus has already been deducted before net income is calculated.

all Federal Reserve member banks, net income amounted to $3.5 billion, and it was $600 million for member banks with deposits under $50 million; the corresponding provision for loan losses was $400 million and $130 million, respectively.

On the basis of these figures, one can reach the following general conclusion: the need to cover exceptional loan losses imposes a drain on the black banks that is so heavy that their net income is cut by more than one-half from the level it otherwise might reach. For all Federal Reserve member banks, the adverse impact is much less -- on the order of one-tenth. For member banks with deposits below $50 million, the proportion is somewhat larger -- but still only one-seventh. Moreover, despite the relatively larger current provision for loan losses by the black banks, they apparently have accumulated a substantially smaller volume of total bad debt reserves in relation to total loans than have banks generally. As shown in Table 4, reserves for bad debts in 1969 were 2.1 per cent of total loans outstanding at all Federal Reserve member banks, and they were about 1.5 per cent at banks with deposits under $50 million. For all black banks, the figure was 0.3 per cent, and there was little variation by size of bank. In one sense, the relatively small accumulation of bad debt reserves at black banks -- despite the sizable amount of current provision for loan losses -- is easily explained: they suffer a significant amount of actual losses, and the bad debt reserves have to be drawn down to cover them.

Of course, since half of the black banks have been started in the last seven years, one would expect some of them to incur operating losses. For some time, expenses would naturally run ahead of income. A previous examination of the operating experience of all insured commercial banks chartered in the United States in the three years 1962-64 indicated that a new bank must typically expect to experience losses from current operations and net income after taxes during roughly the first two years of its existence.[12/] However, the period was considerably longer for the new black banks. For example, because of the adverse operating experience of the new institutions, the black banks as a group had no after-tax profits during the three years ending in 1967.[13/] Their net income after taxes as a percentage of capital was 5.6 per cent in 1962 just prior to the opening of the first new banks. Subsequently, the rate of return declined each year: 1963, 5.2 per cent; 1964, 2.1 per cent; 1965, -1.0 per cent; 1966, -5.0 per cent; and 1967, -5.4 per cent. As the institutions launched in the early to mid-1960's matured, their operating deficits disappeared or shrank substantially (except for a few cases).[14/] Nevertheless, as explained above, the high cost

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12/ See Brimmer, "The Banking System and Urban Economic Development," p. 19, and Tables 7 and 8, cited above in footnote 3.

13/ *Ibid*., p. 17.

14/ In 1969, six of the black banks recorded deficits from operations. Four of these were new banks still in the first or second year of operations. However, one of the remaining two banks dates from the pre-World War II years, and the other dates from the early 1960's.

of operations faced by the black banks has kept the margin of operating income over operating expenses very thin. And the need to provide for exceptionally large loan losses is one of the main factors producing this result.

This adverse loss experience of the black banks, of course, is intimately related to the inherent risk of doing business in the urban ghetto: the high unemployment rates, low family incomes, the high failure rates among small businesses (compounded by high crime rates) make the ghetto an extremely risky place for small banks to lend money. This is true whether such banks are owned and run by black people or by white people.

Capital, Asset Quality and Management of Black Banks

The above external factors associated with the ghetto environment undoubtedly have a significant influence on the performance of black banks. However, several factors internal to these institutions also have a major bearing on the outcome. Among these, capital adequacy, asset quality, and management personnel are particularly important.

The general influence of each of these factors can be assessed on the basis of the bank examination reports prepared at least annually for each insured commercial bank. While the details relating to individual banks cannot be revealed, it is possible to comment on the general conditions and performance of the banks as a group. The evaluation of the black banks by the Federal Reserve Board's examination staff is shown in Table 6, for the years 1967, 1968, and 1970.

In the examination process, banks are appraised against three general criteria (capital adequacy, asset quality, and management performance) and are given an overall score. Capital adequacy is measured by the ratio of capital to risk assets; the higher the ratio, the more adequate is capital, and the bank is rated in Group 1. Asset quality is judged primarily in terms of the size of loan losses written off and the volume of loans that are of somewhat less than good quality or in respect to which repayment is doubtful -- compared with the bank's capital. Class A banks are those whose assets are of the highest quality. A bank's management team is evaluated in terms of its effective control over banking operations as well as its ability to employ the bank's assets profitably. Finally, the overall evaluation is the result of weighing each of the three separate criteria. It is summarized by assigning to the bank a composite rating, with a Group 1 rating suggesting that the bank is in the top category with respect to each of the standards. It is possible for a bank to be weak in one area but strong in the other two; such a situation might result in a Group 2 composite rating. On the other hand, banks in Group 3 demonstrate weakness in more than one area and may well be classified by examiners as problem banks, which means they require extra attention from supervisory authorities. Banks with a composite rating in Group 4 are those facing particularly serious difficulties.

On balance, as one can see from Table 6, most of the black banks have adequate capital. However, in the last year or so, their capital positions have weakened somewhat. Much of this reflects the rapid growth of some of the institutions -- particularly of the recently chartered banks. But some of it also reflects the sizable loan losses written off -- again mainly by several of the banks launched during the last few years.

The assets of the black banks must be classified as of only fair quality. While the volume of loan losses or loans about which repayment is doubtful is moderate in some institutions, in a number of the banks losses have been heavy -- as already indicated. In several cases, the problem was traced to poor management control. In other cases, the banks (all recently chartered ones) made a major effort to grow by expanding loans to local borrowers. However, because of the low family incomes and the marginal character of most of the businesses in their market area, the bank ran into serious difficulties. Most of the banks spend a substantial amount of time and effort (not always with success) trying to collect on defaulted or delinquent loans. Past due paper in the group averages 10 per cent, with the range being from 1 per cent to 25 per cent. While this situation is partly a legacy of general ghetto conditions, collection policies in some of the banks could also be strengthened.

In Table 7, the asset evaluation and composite rating of black banks are compared with those for a sample of Federal Reserve State member banks. Because of the small number of Negro-owned banks, one must be cautious in drawing conclusions from these data. However, the typical black bank does seem to have assets of a quality somewhat lower than that characteristic of the average Federal Reserve State member bank. Their overall performance as measured by the composite rating also appears to be less strong. Again, as mentioned above, some of the difference can be traced to inherent difficulties of trying to conduct a banking business in the ghetto, but some of the divergence also reflects the present shortage of management personnel in the black banks.

An even broader perspective on the quality of loans on the books of black banks is provided by data in Tables 8 and 9. These data show, by size of bank, the evaluation of such loans made by the Federal Reserve Board's examination staff. For this purpose, the loan is evaluated against a scale divided into two main categories: "classified" and "specially mentioned" -- with the "classified" category broken down further into three subclasses, that is, "substandard", "doubtful of repayment", or "probable loss". The results of the evaluation of a selection of Federal Reserve member banks, for the years 1964 and 1969, and the averages for the six years,[15/] are shown in Table 8; the information for the black banks is shown in Table 9.

15/ The figures for the six year averages are based on data for the years 1965-68 as well as on the two years shown. Data for the intervening years were not listed because of lack of space.

In general, these data confirm the impressions formed on the basis of the evidence given above with respect to the quality of loans at black banks. Taking all questionable loans together (those classified or specially mentioned), one can trace a noticeable deterioration in the quality of some of the black banks' loans. For example, in 1964, the amount of such loans as a percentage of total capital accounts at the black banks was roughly the same as for Federal Reserve member banks -- both being about 10 per cent. However, over the following five years, the ratio for black banks climbed sharply to about 30 per cent in 1969, and the six year average was approximately 24 per cent. For Federal Reserve member banks it rose only to about 13 per cent in 1969, and this was also the average for the six years. Again, the biggest factor producing the weakening in loan quality at black banks was the sharp rise in the volume of loan losses.

Turning to management personnel in the black banks, the lack of management depth is common to virtually all of these institutions. In fact, the severe shortage of management talent is probably the most critical problem facing the black banks. For example, as shown in Table 6, nine of the black banks were rated "satisfactory", six were rated "fair", and seven were rated "poor" in terms of management performance in 1970. In general, even some of the banks in the "satisfactory" category depend heavily on the services of a single key executive, but they also had one or two other officers with considerable banking experience. The six banks with "fair" ratings had a mixture of experiences, but here also the thinness of management was evident. Among the seven banks rated "poor", one or two were faced with serious management succession problems as well as having few middle-level officers.

The management problems in the black banks go beyond the fact that only a handful of experienced men are responsible for the conduct of their affairs. The shortage has also led to serious problems of internal controls, accounting and auditing on which the orderly conduct of banking must rest. Moreover, the lack of experience in credit analysis on the part of many loan officers has exposed the banks to numerous risks which later produced the high volume of losses discussed above.

The reason for this severe shortage of management talent is widely known: because of racial discrimination and segregation, Negroes historically were kept out of the economic mainstream and thus lacked the incentives to acquire a mastery of skills in economics, finance, accounting, and business administration, which form the foundations of bank management.

Fortunately, in most of the black banks, a number of young people have been added in recent years and are now working their way up the occupational ladder. Moreover, given the progress being made in several of the training programs designed to increase the number of black bankers, the supply of personnel should expand appreciably in the next few years. In contrast, although the senior management ranks are extremely thin, there appears to be considerable reluctance in a number of institutions to take in new people. Admittedly, the middle management levels are also thin, so few mature and experienced people can readily assume overall responsibility for direction of the institutions' affairs.

On the other hand, there appears to be an excellent opportunity for some of the banks to attract mature, professional men and women who have acquired experience in other fields on which they could build the specific skills needed in financial management. For example, a substantial number of Negroes were appointed to senior positions in the Federal Government in the 1960's. While only a few of them occupied the top policy posts, quite a few were involved in policymaking at a high enough level to give them good exposure and familiarity with the range of issues with which bank managers must deal. Some of these appointees are still in the Federal Government, but most of them have moved on to other jobs. With the appropriate inducements -- and after a reasonable period of specialized preparation -- a number of them could be attracted to the black-owned banks. Undoubtedly, persons who have not been in government but who have acquired similar experiences could be included as well.

But whatever the method used, the black banks should lose no time in trying to strengthen themselves at the senior management level. In the process, they should also not overlook the fact that a large number of people -- who happen to be white -- do have skills in banking, and many of them are willing to work in black institutions. In my judgment, although efforts are being accelerated to expand the supply of black bankers, no significant improvement appears likely in the short run. Thus, I am left with the conviction that black banks must become more willing to employ a greater proportion of white officers -- which some are already doing.

Black Banks and Community Economic Development

Because of the combination of handicaps described above, the black banks as a group appear to possess very little potential as instruments of urban economic development. A few of the banks have experienced noticeable success in tailoring their lending practices so as to lend a significant proportion of their resources to local borrowers -- while keeping loss rates under reasonably good control. In contrast, as shown above, a number of the banks have been aggressive lenders in their local communities, and virtually all of them have experienced sizable losses.

On the whole, however, most of the black banks have found it wise to avoid concentrating their loans and investments exclusively in the ghetto. In general, as shown in Table 10, the proportion of their total resources represented by total loans is substantially below that for banks in the nation as a whole, and the proportion represented by U. S. Government is much higher. In 1969, the loan/deposit ratio at all Federal Reserve member banks was 67.2 per cent. It was highest (69.7 per cent) for the biggest banks and declined sharply at the smaller institutions -- standing at 57.4 per cent for banks with deposits of $10-50 million and at

53.3 per cent for banks with deposits under $10 million. Among black banks, the loan/deposit ratio was generally considerably lower: 50.6 per cent for all banks, 49.0 per cent for those in the $10-50 million deposit range, and 55.4 per cent for those with deposits below $10 million. In contrast, black banks in 1969 held nearly one-quarter of their total assets in the form of U. S. Government securities, compared with one-tenth of all Federal Reserve member banks.

The data in Table 10 also point up the role which black banks play in financing black businesses. In 1969, commerical and industrial loans constituted 8.9 per cent of their total assets; the ratio was somewhat higher (9.7 per cent) for banks in the $10-50 million deposit range and somewhat lower (6.6 per cent) for those with deposits below $10 million. Among Federal Reserve member banks, the picture was markedly different -- and also quite instructive. For all member banks, 22.2 per cent of total assets was invested in commercial and industrial loans. It was slightly higher (24.5 per cent) at the largest banks with total deposits over $50 million. However, the proportion was substantially lower at other member banks -- 11.7 per cent for banks in the $10-50 million deposit class, and 8.0 per cent at banks with deposits below $10 million. The point to note is that the small banks generally -- all black banks as well as the smaller members of the Federal Reserve System -- play a considerably lesser role in business financing than do the institutions at the forefront of the industry. This point will be taken up again in the section which follows.

Real estate loans in 1969 constituted about one-fifth of the black banks' total assets compared with just over one-tenth for all Federal Reserve member banks. There was little variation among black institutions by size of bank, but at smaller member banks the ratio was much higher than the average -- standing at roughly 17 per cent for banks in the $10-50 million deposit range and 14 per cent at those with assets below $10 million. In general, small banks (including the black institutions) feel more secure when lending against real estate than they do when other types of collateral is involved. This is especially true, however, for the black banks among whose customers business failures, unemployment, and other economic adversities are quite prevalent. On the whole, loans to individuals (mainly personal loans and other types of consumer credit) constituted about the same proportion of total assets (about 10 per cent) at both black banks and at Federal Reserve member banks.

Taken as a group, the black banks seem to channel a sizable proportion of their total resources to borrowers outside their local communities. This conclusion is clearly suggested by the information in Table 11, indicating selected characteristics of loans outstanding at black banks as shown in 1970 bank examination reports. According to these data, about four-fifths of the banks' total loans had been extended to local borrowers, and about one-fifth had been made to borrowers outside their local communities.

For several of the black banks, the proportion was in the one-third to two-fifths range -- and for one fairly long-established institution it was as high as one-half.

The largest single amount of outside lending consisted of sales of federal funds by the black banks. These loans actually represent the lending of excess liquid funds for a short time by one bank to another (ordinarily a member bank of the Federal Reserve System). The practice is followed by a great many banks in the country -- including some large banks as well as smaller institutions. In fact, the federal funds market provides a readily available market in which banks with excess funds can keep their resources employed at attractive yields with minimum effort. The black banks have discovered this -- along with other institutions. For example, the data in Table 11 are based on examination reports for 23 black banks; 16 of these had sold $15.9 million of federal funds, representing 12 per cent of their total loans.

Another way in which the black banks have channeled funds to outside borrowers is through the purchase of participations in loans offered by large, outside banks.[16/] This practice is also engaged in by numerous small banks throughout the country. As

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16/ In a few cases, some of the purchased participations may be large local loans made by a big city bank at the black bank's request and a portion then acquired by the black bank. However, loans of this type are believed to constitute only a minor part of the purchased participations on the books of the black banks.

shown in Table 11, purchased participations amounted to $7.9 million and accounted for about 6 per cent of the black banks' total loans. Fifteen of the 23 banks had made such purchases. Virtually all of these were participations in commercial and industrial loans. At the same time, their loans to local businesses amounted to $28.3 million, or about 20 per cent of their total loans. So, while the black banks' books showed that they had made business loans of $36.2 million (representing 26.3 per cent of their outstanding loans), about one-fifth of the total actually consisted of loans to outside business borrowers.[17/]

This export of funds by black banks may be a reflection of a number of factors. For the fairly new institution, a sizable amount of deposits flows in during the early months of its existence. At the same time, adequate outlets for funds with a reasonable prospect of repayment develop more slowly. Thus, such a new bank must find a means of keeping its funds employed, and both the federal funds market and the purchase of participations offer attractive alternatives. However, this is much less true for those banks that have been in business for a long time. In fact, several of the banks with a particularly high proportion of their loans outstanding to outside borrowers had been in operation a number of years.

17/ Business loans in relation to total loans at black banks (about 26 per cent) can be compared with similar figures for Federal Reserve member banks. For the latter, commercial and industrial loans constituted 39.6 per cent of total loans for all member banks and 25.7 per cent for country member banks -- which are generally smaller institutions.

On the whole, part of the observed export of funds by black banks may be traced to the normal quest for diversification. However, on the basis of the evidence presented here, I am inclined to believe that it also reflects an effort on the part of the banks to minimize the exceptionally high risks of lending in the ghetto.

An Alternative Means of Financing Community Progress

From this assessment of the performance of black banks, I am convinced that the multiplication of such institutions should not be encouraged in the belief that they can make a major contribution to the financing of economic development in the black community. At the same time, I am also convinced that the main task to which their efforts are addressed is a critical one, and means should be found to achieve the goals. This conviction led me two years ago to suggest the establishment of a new vehicle through which large commercial banks may participate more effectively in programs for urban development, including not only the financing and development of low-income housing projects but also the financing of small and medium-size businesses, particularly through the purchase of equities.[18/] I think the idea is worth repeating here. There is already a program for the financing of small businesses through State-chartered small business investment companies under the supervision of the Small Business Administration. Banks are authorized to invest in the stock of corporations

18/ See Brimmer, op.cit., pp. 29-33.

organized pursuant to Title IX of the 1968 Housing and Urban Development Act and to invest, to a limited extent, in stock of small business investment companies. However, there does not exist any program under Federal law that is aimed solely or primarily at participation by commercial banks in the financing of urban renewal projects and small business enterprises, particularly through the purchase of equities. With certain limited exceptions, banks may not themselves directly purchase corporate stocks.

A precedent exists in the foreign area for indirect investment by banks in equities of business enterprises. Since 1919, a section of the Federal Reserve Act[19/] has provided for the chartering by the Board of Governors of corporations to engage in international or foreign banking or other international or financial operations and for the purchase by member banks of stock in such corporations. Because the law was sponsored by Senator Edge, these corporations are generally referred to as "Edge" corporations. In addition, under another section of the Federal Reserve Act[20/], member banks may invest in stock of similar corporations organized under State laws, subject to an agreement by the corporation to restrict its operations in accordance with limitations prescribed by the Board. These corporations are generally referred to as "Agreement" corporations.

19/ Section 25(a); 12 U.S.C. 611-631.

20/ Section 25; 12 U.S.C. 601-604a.

As permitted by the law and subject to regulations of the Board, these corporations have made equity investments in a wide variety of business enterprises in foreign countries. Only a small part of these holdings represents stock in non-financial businesses. Nevertheless, they include stock of appliance companies, steel mills, hotels, realty companies, sugar and flour mills, tobacco growers, concrete and cement companies, restaurants, tanneries, and breweries.

If American banks are thus enabled to assist indirectly in the equity financing of businesses abroard, in my opinion there is no logical reason why they should not be permitted to do likewise in the United States.

Following the precedent of Edge corporations, legislation might be enacted that would authorize national banks, as well as insured State banks to the extent permissible under State laws, to subscribe to stock of domestic corporations chartered by the Federal Reserve with authority to extend financial assistance through direct loans and equity financing to housing projects and to retail and wholesale business enterprises necessary to the imporvement of living conditions and economic development in our large cities. While such a corporation might be wholly owned by a single large bank, there would be no reason for which a number of banks might not join in its organization.

Because by their very nature the projects and businesses to be financed by the corporations would involve more-than-normal credit risks, it might be necessary to provide certain tax incentives for the organization of the corporations similar to those now provided for small business investment companies. Moreover, in order that the corporations might be enabled to raise necessary funds in addition to capital through the issuance of debentures, it might be necessary to require such debentures to be guaranteed in whole or in part by the organizing bank or banks. Consideration might even be given to such guarantees by Federal Reserve Banks.[21/]

Any legislation of the kind here suggested should be relatively simple and uncomplicated by unnecessary restrictions. The proposed corporations should be given lending, investment, and other powers necessary to accomplish their purposes, subject to regulation by the Board. At the same time, it might be desirable to provide some statutory limitations upon the percentage of a bank's capital and surplus that may be invested in the proposed corporations, upon the amount that may be invested by the corporations in a single enterprise, and upon the aggregate amount of debentures or other obligations that may be issued by the corporations. Equity investments by the corporations might be made subject, like those of Edge corporations, to approval by the Board.

21/ It will be recalled that under former section 13b of the Federal Reserve Act, repealed in 1958, the Reserve Banks were authorized to make loans to and purchase obligations of established industrial or commercial businesses and to participate with commercial banks, up to 80 per cent, in extensions of credit made by banks to such businesses.

To make the corporations truly effective, they should be chartered only if they have a substantial minimum capital. Small business investment companies may be organized with a capital of only $150,000. In contrast, an Edge corporation is required to have a minimum capital of $2 million.

While I do not advance the above suggestion as the best -- or only -- vehicle through which commercial banks can enlarge their contribution to urban economic development, I am convinced that the approach is sufficiently promising to warrant consideration. It certainly appears to be far more promising than reliance on small banks in the ghetto as vehicles for economic development.

Concluding Observations

The central theme of this paper was summarized at the outset, and its main conclusions have been stated in each section. At this point, I must take note of the possibility that some observers (especially in the black community) -- even in the face of the substantial evidence presented here -- may still wish to encourage the establishment of new black-owned banks. For them, such banks may be a source of racial pride, and this is a positive consideration for a rapidly growing segment of the community -- particularly young people. Moreover, these banks may also render some marginal -- although high-cost financial services.

But under those circumstances, most of the black banks might be viewed primarily as ornaments -- that is, as a mark of distinction or a badge of honor which provides a visible symbol of accomplishment. However, they should not be misread as indicating that such institutions could become vital instruments of economic development.

Expressed differently, the black banks might be compared to small, high-cost speciality shops -- catering to a limited segment of the market. But they are far from being analogous to the large-scale department stores offering a full range of services to the community at large.

Table 1. Black Banks in the United States, by Location, Date Founded, and Total Assets, December 31, 1969

	Name	Location	Date Founded	Total Assets December-1969 (Thousands)
1.	Bank of Finance	Los Angeles, California	1964	$12,608
2.	Carver State Bank	Savannah, Georgia	1947	3,559
3.	Citizens Savings Bank and Trust Company	Nashville, Tennessee	1904	5,899
4.	Citizens Trust Company	Atlanta, Georgia	1921	25,593
5.	Consolidated Bank and Trust Co.	Richmond, Virginia	1903	12,456
6.	Douglass State Bank	Kansas City, Kansas	1947	9,937
7.	First Plymouth National Bank	Minneapolis, Minnesota	1969	3,967
8.	First State Bank	Danville, Virginia	1919	4,772
9.	Freedom Bank of Finance	Portland, Oregon	1969	1,966
10.	Freedom National Bank	New York, New York	1964	39,317
11.	Gateway National Bank of St. Louis	St. Louis, Missouri	1965	8,642
12.	Independence Bank of Chicago	Chicago, Illinois	1964	13,095
13.	Industrial Bank of Washington	Washington, D. C.	1934	21,688
14.	Liberty Bank of Seattle	Seattle, Washington	1968	3,266
15.	Mechanics and Farmers Bank	Durham, North Carolina	1921	21,555
16.	Riverside National Bank	Houston, Texas	1963	6,648
17.	Seaway National Bank of Chicago	Chicago, Illinois	1965	21,700
18.	Swope Parkway National Bank	Kansas City, Missouri	1968	8,093
19.	Tri-State Bank of Memphis	Memphis, Tennessee	1946	10,314
20.	United Community National Bank	Washington, D. C.	1964	7,738
21.	Unity Bank and Trust Company	Boston, Massachusetts	1968	12,967
22.	Victory Savings Bank	Columbia, South Carolina	1921	3,015
23.	First Independence National Bank of Detroit	Detroit, Michigan	May 1970	1/ 3,268
24.	Unity State Bank	Dayton, Ohio	August 1970	2/ N.A.

1/ June 30, 1970, Polk's World Bank Directory.

2/ No official call report.

Source: Consolidated Report of Condition ("Call Report"), December 31, 1969.

Table 2.

Black Banks' Share of the Banking System in the United States, 1969
(Amounts: All Banks, Billions of Dollars; Black Banks, Millions of Dollars)

Category	All Insured Commercial Banks	Black Banks Amount	Black Banks Per Cent of Total
Number of banks	13,473	22	0.163
Number of employees	904,736	83.4	0.092
Average per bank	67.1	41.7	62.2
Total assets	530.7	258.8	0.049
Total deposits	437.0	229.5	0.053
Average size of bank ($ millions)	32.6	10.4	31.9
Total capital	39.6	19.2	0.048
Total loans	286.8	130.4	0.045
Commercial and industrial	108.4	36.2	0.033
Real estate	70.3	46.9	0.067
Individuals	63.4	22.1	0.035
Memorandum	Total	Negroes (Amount)	Per Cent of Total
Population (millions) 1/	203.2	22.7	11.2
Labor force (millions) 1/	77.9	9.1*	11.7
Aggregate money income ($ billions) 1/	600.1	38.1	6.3
Ownerships of selected assets by households ($ billions) 2/	970.1	18.2	1.9
Financial assets	337.1	2.3	0.7
Money in banks	164.8	1.8	1.1
Government bonds	26.9	0.3	1.2
Corporate stocks	145.4	0.2	0.1
Other assets	633.0	15.9	2.5
Farm equity	154.7	1.9	1.2
Business equity	106.4	1.3	1.2
Equity in home	371.9	12.7	3.4

Source: Consolidated Report of Condition ("Call Report"), December 31, 1969

1/ U. S. Bureau of the Census
2/ Office of Economic Opportunity, 1967 Survey of Economic Opportunity.

*Refers to all nonwhites.

Table 3.

Operating Costs In Black Banks, By Size And Federal Reserve Membership, 1969
(Size Groups in Millions of Dollars)

Category	All Member Banks				Black Banks					
					All Black Banks			Black Federal Reserve Member Banks		
	Total	50 million and over	10 to 50 million	Under 10 million	Total	10 to 50 million	Under 10 million	Total	10 to 50 million	Under 10 million
Total Expenses as per cent of:										
operating income	78.1	78.1	78.2	78.2	93.3	95.2	88.4	92.1	93.3	88.5
Total deposits	5.6	5.7	5.2	4.8	6.5	6.5	6.8	6.7	6.3	7.5
Labor costs (per cent of operating expenses)										
Salaries and wages	24.0	23.6	24.9	27.7	30.8	30.8	30.6	31.0	31.0	30.9
Officer and employee benefits	3.8	3.9	3.3	2.9	2.9	3.1	2.3	3.0	3.4	1.9
Overhead costs 1/	10.0	10.1	9.7	8.3	11.6	11.9	10.9	10.7	11.4	8.2
Cost of money										
Interest paid on time and savings deposits (per cent of operating expenses)	40.4	39.8	44.0	41.5	28.7	29.3	27.3	27.2	30.6	19.9
Average cost of money (per cent) 2/	4.4	4.7	3.6	3.4	3.1	3.1	3.1	3.2	3.2	3.1
Marginal cost of money (per cent) 3/	-6.7 4/	-4.1 4/	9.7	6.9	4.5	4.6	4.1	3.0	3.4	1.9
Number of Banks	5,711	742	2,372	2,597	19	9	10	6	3	3

1/ "Overhead expenses" include occupancy expenses of bank premises, furniture and equipment outlays, depreciation, rental costs, servicing, etc.

2/ "Average cost of money" is defined as interest payments on time and savings deposits in 1969 as a percentage of the average level of such deposits outstanding on December 31, 1968 and December 31, 1969.

3/ "Marginal cost of money" is defined as the change in interest payments in 1969 expressed as a percentage of the change during 1969 in the level of deposits outstanding as defined in footnote 2.

4/ The negative figures for all member banks and for member banks with over $50 million in deposits reflect the sharp decline in the volume of outstanding large denomination certificates of deposits (CD's) in 1969 while total interest payments rose.

Source: Consolidated Report of Condition ("Call Report"), December 31, 1969.

Table 4. Selected Operating Characteristics and Loss Experience of Black Banks, By Size and Federal Reserve Membership, 1969
(Amounts: All Member Banks, Billions of Dollars; Black Banks, Millions of Dollars; Outstandings as of December 31, 1969)
(Size Groups in Millions of Dollars)

Category	All Member Banks				Black Banks					
					All Black Banks			Black Federal Reserve Member Banks		
	Total	Over 50 million	10 to 50 million	Under 10 million	Total	10 to 50 million	Under 10 million	Total	10 to 50 million	Under 10 million
Total deposits	350.6	284.2	51.7	14.7	229.5	170.6	58.9	106.2	75.7	30.5
Total loans and securities	242.9	203.4	31.1	8.4	210.9	154.5	56.4	97.7	69.1	28.6
Operating expenses, 1969	19.5	16.1	2.7	0.7	15.0	11.0	4.0	7.1	4.8	2.3
Net income, 1969	3.5	2.8	.5	.1	.8	.5	.3	.5	.3	.2
Reserves on loans and securities	5.3	4.6	.6	.1	.8	.6	.2	.3	.2	.1
Per cent of total loans and securities	2.2	2.3	1.9	1.2	.4	.4	.4	.3	.3	.4
Reserves for bad debts	5.1	4.4	.6	.1	.7	.5	.2	.3	.2	.1
Per cent of total loans	2.1	2.2	1.9	1.2	.3	.3	.4	.3	.3	.4
Provision for loan losses, 1969	.4	.3	.1	.03	1.1	.7	.3	.6	.3	.3
Per cent of operating expenses	2.1	1.9	3.7	4.3	7.3	6.4	7.5	8.5	6.3	13.0
Per cent of net income	11.4	10.7	20.0	30.0	137.5	140.0	100.0	120.0	100.0	150.0

Source: Consolidated Report of Condition ("Call Report"), December 31, 1969.

Table 5.

Profitability of Black Banks, By Size and Federal Reserve Membership, 1969
(Size Groups in Millions of Dollars of Deposits)

Category	All Member Banks				Black Banks					
					All Black Banks			Black Federal Reserve Member Banks		
	Total	50 million and over	10 to 50 million	Under 10 million	Total	10 to 50 million	Under 10 million	Total	10 to 50 million	Under 10 million
Current operating income as per cent of										
Total assets	1.27	1.26	1.25	1.22	0.37	0.31	0.55	0.43	0.39	0.49
Capital accounts	17.1	18.9	16.2	13.3	5.1	4.8	5.7	5.8	7.1	5.2
Income after taxes as per cent of										
Total assets	0.85	0.84	0.89	0.90	0.28	0.22	0.47	0.34	0.30	0.45
Capital accounts	11.4	12.5	11.5	9.9	3.9	3.4	4.8	4.7	5.4	4.8
Net income as per cent of										
Total assets	0.80	0.78	0.87	0.87	0.31	0.25	0.48	0.34	0.29	0.45
Capital accounts	10.8	11.7	11.2	9.6	4.2	3.8	4.9	4.6	4.5	4.9
Rate of return on selected assets (Per cent)										
Total loans	7.2	7.3	7.0	7.0	7.3	7.2	7.5	7.5	7.3	8.3
Securities										
U. S. Government	5.3	5.3	5.4	5.3	5.7	5.8	5.4	6.0	6.1	5.6
State and Local Government	3.9	4.0	3.5	3.2	2.7	2.6	3.0	2.2	2.2	0.0
Other securities	6.1	6.3	5.7	3.7	0.6	0.3	2.9	3.6	2.6	5.7
Selected Sources of Operating Income (Per cent)										
Total interest income	85.3	85.0	86.8	86.3	78.7	80.6	73.8	74.0	79.0	58.6
Interest on loans	68.4	69.8	62.2	58.5	53.5	53.0	54.8	50.2	51.4	46.7
Service charges	3.3	2.9	5.0	4.7	11.6	11.4	12.2	13.2	12.3	15.8

Source: Consolidated Report of Condition ("Call Report"), December 31, 1969.

Table 6. Supervisory Evaluation of Black Banks, 1967, 1968, and 1970

Criteria	Rating Category				
Capital Adequacy	Group 1	Group 2	Group 3		Total
1967	10	3	2		15
1968	7	4	4		15
1970	14	3	5		22
Asset Quality	Class A	Class B	Class C	Class D	Total
1967	5	6	3	1	15
1968	7	3	4	1	15
1970	12	4	6	0	22
Management Performance	Satisfactory	Fair	Poor		Total
1967	4	10	1		15
1968	5	6	4		15
1970	9	6	7		22
Composite Rating	Group 1	Group 2	Group 3	Group 4	Total
1967	3	7	4	1	15
1968	4	5	6	0	15
1970	12	5	5	0	22

Table 7. Asset Evaluation and Composite Rating of Black Banks, and a Sample of Federal Reserve State Member Banks, 1967, 1968, and 1970

Category	Total	Rating Class			
Composite Rating		1	2	3	4
F. R. Member Sample (1967)					
Number	677	439	211	24	3
Per cent	100.0	65.0	30.8	3.6	0.6
Black Banks					
1967 Number	15	3	7	4	1
Per cent	100.0	20.0	46.6	26.7	6.7
1968 Number	15	4	5	6	0
Per cent	100.0	26.7	33.3	40.0	0.0
1970 Number	22	12	5	5	0
Per cent	100.0	54.4	22.8	22.8	0.0
Asset Rating		A	B	C	D
F. R. Member Sample (1967)					
Number	677	536	106	25	10
Per cent	100.0	79.5	15.7	3.7	1.1
Black Banks					
1967 Number	15	5	6	3	1
Per cent	100.0	33.3	40.0	20.0	6.7
1968 Number	15	7	3	4	1
Per cent	100.0	46.6	20.0	26.7	6.7
1970 Number	22	12	4	6	0
Per cent	100.0	54.4	18.2	27.4	0.0

Table 8.

Evaluation of Bank Loans, By Quality and Size of Bank, as Shown in Examination Reports of Selected Federal Reserve Member Banks, 1964-1969
(Size Groups in Millions of Dollars)
(Amounts in Millions of Dollars)

Category	1964 Total	1964 Under 10 million	1964 10 to 50 million	1969 Total	1969 Under 10 million	1969 10 to 50 million	Six-Year Average Total	Six-Year Average Under 10 million	Six-Year Average 10 to 50 million
Number of banks	5,666	4,012	1,654	5,099	2,813	2,286	5,425	3,486	1,939
Gross loans	27,365	8,971	18,394	41,599	8,580	33,019	33,007	9,147	23,860
Classified loans:									
Substandard	327	127	200	470	136	334	424	143	281
Per cent of gross loans	1.19	1.42	1.09	1.13	1.59	1.01	1.28	1.56	1.19
Doubtful	31	11	20	55	15	40	48	16	32
Per cent of gross loans	.11	.12	.11	.13	.17	.12	.15	.18	.13
Loss	35	13	22	50	16	34	46	17	29
Per cent of gross loans	.13	.14	.12	.12	.19	.10	.14	.19	.12
Total classified loans	394	151	243	575	167	408	518	175	343
Per cent of gross loans	1.44	1.68	1.32	1.38	1.95	1.23	1.57	1.92	1.44
Loans specially mentioned	156	49	107	185	39	146	159	45	114
Per cent of gross loans	.57	.55	.58	.44	.45	.44	.48	.50	.48
Valuation reserves on loans	471	120	351	610	115	495	541	122	419
Total capital accounts	4,977	1,940	3,037	5,614	1,495	4,119	5,279	1,774	3,505
Classified loans as per cent of total capital	7.9	7.8	8.0	10.2	11.2	9.9	9.8	10.0	9.7
Specially mentioned loans as per cent of total capital	3.1	2.5	3.5	3.3	2.6	3.5	3.0	2.6	3.2
Classified and specially mentioned loans as per cent of total capital	11.1	10.3	11.5	13.5	13.8	13.4	12.8	12.6	12.9

Table 9. Evaluation of Bank Loans, By Quality and Size of Bank, as Shown in Examination Reports of Black Banks, 1964-1969
(Size Groups in Millions of Dollars)
(Amounts in Thousands of Dollars)

Category	1964			1969			Six-Year Average		
	Total	Under 10 million	10 to 50 million	Total	Under 10 million	10 to 50 million	Total	Under 10 million	10 to 50 million
Number of Banks	11	8	3	21	15	6	16	12	4
Gross loans	33,751	16,139	17,612	112,061	56,341	55,720	63,731	33,814	29,917
Classified loans:									
Substandard	501	244	257	2,983	1,243	1,740	1,551	824	727
Per cent of gross loans	1.48	1.51	1.46	2.66	2.21	3.12	2.43	2.44	2.43
Doubtful	38	12	26	365	83	282	449	269	180
Per cent of gross loans	.11	.07	.15	.33	.15	.51	.70	.80	.60
Loss	28	6	22	701	273	428	445	230	215
Per cent of gross loans	.08	.04	.12	.63	.48	.77	.70	.64	.70
Total classified loans	567	262	305	4,049	1,599	2,450	2,446	1,323	1,123
Per cent of gross loans	1.68	1.62	1.73	3.61	2.84	4.40	3.84	3.91	3.75
Loans specially mentioned	4	4	0	1,029	507	522	361	221	140
Per cent of gross loans	.01	.02	-	.92	.90	.94	.57	.65	.47
Valuation reserves on loans	289	83	206	694	366	328	376	148	228
Total capital accounts	6,826	4,171	2,655	17,438	9,291	8,147	11,496	6,830	4,666
Classified loans as per cent of total capital	8.3	6.3	11.5	23.2	17.2	30.1	21.3	18.6	22.0
Specially mentioned loans as per cent of total capital	.1	.1	0	5.9	5.5	6.4	3.1	3.2	3.0
Classified and specially mentioned loans as per cent of total capital	8.4	6.4	11.5	29.1	22.7	36.5	24.4	21.5	25.0

Table 10.

Composition of Selected Assets and Liabilities of Black Banks, By Size and Federal Reserve Membership, December 31, 1969
(Deposit Size in Millions of Dollars)

Category	All Member Banks: Total	All Member Banks: 50 million and over	All Member Banks: 10 to 50 million	All Member Banks: Under 10 million	Black Banks — All Black Banks: Total	All Black Banks: 10 to 50 million	All Black Banks: Under 10 million	Black Banks — Black Federal Reserve Member Banks: Total	Black Federal Reserve Member Banks: 10 to 50 million	Black Federal Reserve Member Banks: Under 10 million
Composition of deposits (per cent of total)										
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Demand	57.0	59.3	46.6	48.4	48.8	49.6	46.6	51.5	49.6	58.9
Time and savings	43.0	40.7	53.4	51.6	51.2	50.4	53.4	48.5	50.4	41.1
Composition of assets (per cent of total assets)										
Cash and due from banks	18.2	19.2	13.3	13.6	12.5	12.7	11.9	12.7	11.4	17.6
Securities:										
U. S. Government	10.2	8.4	17.1	23.2	23.8	20.7	22.6	17.1	16.1	[illegible]
State and Local Government	10.5	10.1	13.2	9.7	7.7	9.3	3.1	9.8	12.3	-
Loans: Total	54.4	55.2	50.9	47.5	45.0	43.8	48.6	41.6	41.7	41.2
Federal funds sold	1.3	1.5	0.5	0.2	0.7	0.8	0.6	0.8	0.8	0.7
Loans to financial institutions	3.7	4.4	0.6	0.5	1.7	1.9	1.0	3.5	3.7	2.3
Loans to purchase or carry securities	2.0	2.3	0.6	0.4	0.9	1.1	0.5	2.1	2.3	1.4
Commercial and industrial	22.2	24.5	11.7	8.0	8.9	9.7	6.6	8.6	8.7	8.1
Real estate	12.2	11.3	16.9	14.1	20.1	20.2	19.9	13.9	16.1	5.1
Individuals	11.1	10.1	16.4	13.7	12.4	10.0	19.1	12.7	9.9	23.4
Farmers	1.4	0.6	3.6	10.0	-	-	-	-	-	-
All other loans	1.5	1.7	0.7	0.7	0.7	0.5	1.0	0.7	0.7	0.6
Bank premises, furniture, and fixtures	1.5	1.4	1.6	1.4	4.1	4.6	2.4	5.8	6.8	1.8
Memorandum:										
Loan/deposit ratio	67.2	69.7	57.4	53.3	50.6	49.0	55.4	47.7	47.7	47.5
Capital/risk asset ratio	10.3	10.1	10.8	13.4	11.2	10.1	14.2	11.0	9.6	16.5

Source: Consolidated Report of Condition ("Call Report"), December 31, 1969.

Table 11. Selected Characteristics of Loans Outstanding at Black Banks as Shown in Examination Reports, 1970
(Amounts in Thousands of Dollars; Deposit Size in Millions of Dollars)

	Size of Bank		
Category	Total	10 to 50 million	Under 10 million
Total assets	264,563	193,126	71,437
Total loans			
Amount	137,535	94,295	43,240
Per cent of total assets	52.0	48.8	60.5
Loans to local borrowers			
Amount	107,552	77,165	30,387
Per cent of total assets	40.7	40.0	42.5
Per cent of total loans	78.2	81.8	70.3
Loans to other borrowers			
Amount	29,963	17,130	12,833
Per cent of total assets	11.3	8.9	18.0
Per cent of total loans	21.8	18.2	29.7
Federal funds sold	15,875	7,400	8,475
Per cent of total loans	11.5	7.9	19.6
Participations purchased	7,888	3,530	4,358
Per cent of total loans	5.7	3.7	10.1
Brokers loans, commercial paper, bankers acceptances	6,200	6,200	-
Per cent of total loans	4.5	6.6	-
Commercial and industrial loans			
Amount	36,214	20,727	15,487
Per cent of total assets	13.7	10.7	21.7
Per cent of total loans	26.3	22.0	35.8
Local borrowers	28,326	17,197	11,129
Per cent of commercial and industrial loans	78.2	83.0	71.9
Participations purchased	7,888	3,530	4,358
Per cent of commercial and industrial loans	21.8	17.0	28.1

Table 12.

Principal Assets of Black Banks, December 31, 1969
(Thousands of Dollars)

Name of Bank	Total Assets (1)	Cash & Due From Banks (2)	U. S. Treasury Securities (3)	Securities of Gov't. Agencies and Corps. (4)	Obligations of States and Political Subdivisions (5)	Federal Funds (6)	Other Loans (7)	Bank Premises and Furniture (8)	Real Estate (other than Premises) (9)	Other Assets (10)
(1) Bank of Finance	$ 12,608	$ 1,676	$ 792	$ 1,230	$ -0-	$ -0-	$ 7,876	$ 575	$ 206	$ 253
(2) Citizens Savings Bank and Trust Company	5,899	1,085	850	1,655	15	-0-	2,262	31	-0-	1
(3) Citizens Trust Company	25,593	2,348	977	394	8,932	-0-	7,891	4,742	117	192
(4) Consolidated Bank and Trust Co.	12,456	1,999	1,059	1,050	1,289	-0-	6,751	253	-0-	55
(5) Douglass State Bank	9,937	584	1,090	510	736	525	5,968	478	-0-	46
(6) First State Bank	4,772	494	394	-0-	622	550	2,550	54	3	105
(7) Freedom National Bank	39,317	4,636	7,220	5,768	-0-	3,000	16,929	592	639	533
(8) Gateway National Bank of St. Louis	8,642	1,119	1,634	780	-0-	-0-	4,748	243	-0-	118
(9) Industrial Bank of Washington	21,688	1,705	4,527	2,997	2,862	300	7,380	534	63	1,320
(10) Liberty Bank of Seattle	3,266	183	-0-	268	-0-	300	2,265	220	-0-	30
(11) Mechanics and Farmers Bank	21,555	2,000	3,323	3,650	2,137	-0-	9,412	822	1	210
(12) Riverside National Bank	6,648	817	794	600	-0-	1,000	3,158	197	-0-	82
(13) Seaway National Bank of Chicago	21,700	2,968	2,840	2,000	1,764	-0-	11,355	580	-0-	193
(14) Swope Parkway National Bank	8,093	2,069	1,320	-0-	-0-	-0-	4,577	102	-0-	25
(15) Tri-State Bank of Memphis	10,314	655	2,573	199	150	300	5,886	259	134	158
(16) The Independence Bank of Chicago	13,095	1,974	967	3,503	-0-	1,300	5,043	127	11	170
(17) First Plymouth National Bank	3,967	298	1,238	-0-	-0-	1,000	1,328	36	-0-	67
(18) The Carver State Bank	3,558	388	1,512	100	241	-0-	1,271	46	-0-	-0-
(19) United Community National Bank	7,738	1,076	712	-0-	-0-	4,175	1,535	118	-0-	122
(20) Unity Bank and Trust Company	12,967	3,760	825	385	-0-	1,000	6,645	254	-0-	98
(21) Victory Savings Bank	3,015	192	514	433	205	300	1,300	44	5	22
(22) Freedom Bank of Finance	1,966	348	840	-0-	-0-	475	64	187	-0-	52
Grand Total	$258,794	$32,374	$36,001	$25,522	$18,953	$14,225	$116,194	$10,494	$1,179	$3,852

Source: Consolidated Report of Condition ("Call Report"), December 31, 1969.

Table 13.

Principal Liabilities, Reserves and Capital of Black Banks, December 31, 1969
(Thousands of Dollars)

Name of Bank	Total Liabil-ities (1)	Total Deposits (2)	Demand Deposits (IPC) (3)	Time Deposits (IPC) (4)	Deposits of U. S. Gov't. (5)	Deposits of State and Political Subdivisions (6)	Deposits of Commercial Banks (7)	Certified Checks (8)	Other Liabil-ities (9)	Capital Account (10)	Reserves on Loans and Securities (11)	Memo Items: Total Deposits (12)	Memo Items: Total Demand Deposits (13)	Memo Items: Total Timed Savings (14)
(1) Bank of Finance	$ 12,608	$ 11,436	$ 5,940	$ 3,903	$ 670	$ 384	$-0-	$ 539	$ 449	$ 718	$ 5	$ 11,436	$ 7,278	$ 4,158
(2) Citizens Savings Bank and Trust Company	5,899	5,373	2,038	2,667	271	366	-0-	31	82	444	-0-	5,373	2,441	2,931
(3) Citizens Trust Company	25,593	18,851	9,090	7,938	604	910	-0-	309	396	2,567	179	18,851	10,484	8,367
(4) Consolidated Bank and Trust Co.	12,456	11,262	3,074	6,553	1,251	315	-0-	69	54	1,033	107	11,262	4,709	6,553
(5) Douglass State Bank	9,937	8,804	2,858	4,222	392	1,165	14	153	101	814	4	8,804	3,801	5,003
(6) First State Bank	4,772	4,203	950	2,910	268	42	-0-	33	118	421	30	4,203	1,251	2,952
(7) Freedom National Bank	39,317	36,731	13,037	15,960	2,179	4,703	65	787	734	1,852	-0-	36,731	17,571	19,160
(8) Gateway National Bank of St. Louis	8,642	7,623	2,918	3,546	192	769	-0-	198	227	454	20	7,623	3,752	3,871
(9) Industrial Bank of Washington	21,688	20,410	7,472	11,717	1,031	-0-	-0-	190	331	945	2	20,410	7,472	12,938
(10) Liberty Bank of Seattle	3,266	2,658	925	1,230	221	225	15	42	51	451	18	2,658	1,328	1,330
(11) Mechanics and Farmers Bank	21,555	19,455	6,641	9,240	912	2,155	-0-	507	234	1,439	148	19,455	8,990	10,465
(12) Riverside National Bank	6,648	5,910	1,996	2,626	729	428	-0-	131	58	678	2	5,910	3,039	2,871
(13) Seaway National Bank of Chicago	21,700	20,147	8,408	9,811	709	904	23	292	403	1,101	49	20,147	9,434	10,713
(14) Swope Parkway National Bank	8,093	7,113	2,711	2,022	422	1,740	40	178	247	703	30	7,113	5,066	2,047
(15) Tri-State Bank of Memphis	10,314	9,054	2,757	4,701	606	880	-0-	110	362	843	55	9,054	3,638	5,416
(16) The Independence Bank of Chicago	13,095	12,199	4,778	5,399	854	987	-0-	181	107	788	1	12,199	5,899	6,300
(17) First Plymouth National Bank	3,967	3,412	1,128	1,005	1,147	41	30	61	97	453	5	3,412	2,407	1,005
(18) The Carver State Bank	3,558	3,211	483	1,860	206	621	8	33	20	316	11	3,211	777	2,434
(19) United Community National Bank	7,738	6,487	2,719	3,102	585	-0-	-0-	81	82	1,118	51	6,487	3,376	3,111
(20) Unity Bank and Trust Company	12,967	11,045	4,181	3,707	798	435	80	1,844	656	1,210	56	11,045	6,979	4,067
(21) Victory Savings Bank	3,015	2,721	812	1,427	212	238	-0-	32	48	219	27	2,721	1,149	1,572
(22) Freedom Bank of Finance	1,966	1,374	442	229	397	302	-0-	4	3	589	-0-	1,374	845	529
Grand Total	$258,794	$229,479	$85,358	$105,775	$14,656	$17,610	$275	$5,805	$4,860	$19,156	$800	$229,479	$111,686	$117,793

Source: Consolidated Report of Condition ("Call Report"), December 31, 1969.