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THE BANKING SYSTEM AND URBAN ECONOMIC DEVELOPMENT

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Commercial banks, despite their generally strong desire to contribute, actually can play only a limited and specialized role in the national campaign to solve our pressing urban problems. While urging bankers to demonstrate an awareness of the crisis confronting the cities and the need to devise means of coping with the situation, many urban developers tend to assign to commercial banks a much more critical mission than the latter can perform. Unfortunately, bank officers themselves -- and even bank supervisors and elected officials responsible for banking legislation -- far too frequently fail to delineate clearly those tasks which banks can (and should) undertake -- while resisting pressures to underwrite schemes which are obviously beyond the proper scope of commercial banking.

*Member, Board of Governors of the Federal Reserve System. I am indebted to a number of persons for assistance in the preparation of this paper. Brenton C. Leavitt of the Board's Staff supervised the survey of efforts to charter new banks in urban ghettoes which was conducted by Bank Examination officials of each Federal Reserve Bank. Jack M. Egerston and Hugh J. Maguire of the Board's Staff prepared the assessment of performance of Negro-owned and operated banks as reflected in the reports of examination. Jacqueline McDaniel did the computer programming which made possible the analysis of the profit and loss experience of all national and insured nonmember banks chartered in the United States during 1962-64. Outside the Federal Reserve, a number of bankers have been particularly helpful in the assessment of the performance of newly-chartered banks owned and operated by Negroes. My assistant, Mary Ann Graves, worked on several parts of the project.

Having made the above observations, let me hasten to say that I am not suggesting that bankers are rushing into urban development projects without due regard to the safety and soundness of their institutions. On the contrary, most bankers probably are skirting many ghetto lending opportunities which they could exploit without going beyond the boundaries of acceptable risks established for their regular loans. Moreover, even today only a relatively small number of banks have launched special lending programs designed to cope with the higher risks inherent in the extension of credit to residents and business enterprises operating in ghetto areas. Rather, the key point I wish to make is this: the conviction is spreading among many observers, and not exclusively among residents of ghetto areas, that banks (because of their command over such a substantial share of the nation's financial resources) possess a unique ability to pioneer urban reconstruction. The strength of this conviction is illustrated by the current efforts to launch new commercial banks in ghettoes -- with special emphasis on their ownership and operation by Negroes -- and to enact Federal legislation authorizing the creation of community development banks. Despite the sincerity of the persons making such efforts -- and despite the powerful support they have attracted from numerous public officials -- all of us should avoid fostering expectations about banks' potential contributions to urban development which outrun their true ability to respond.

On the other hand, we should encourage the banks to recast their traditionally narrow conception of their functions and to participate more fully in the process of urban development by concentrating in those areas where they have a comparative advantage: that is, in lending and credit financing. But to accomplish this objective, the banks will have to exercise much more imagination than in the past -- as many of them are already doing. Moreover, the banks can also play an enlarged role in the provision of equity capital in ghetto areas through expanded use of existing financing arrangements, and their role could be further enhanced by legislation permitting banks to acquire domestically assets similar to those in which they can invest abroad. Again, however, we must avoid strengthening the unwarranted assumption that banks -- by the employment of some sort of miraculous financing schemes -- can transform urban ghettoes into economic Edens.

The main issues raised in the rest of this paper and the conclusions reached can be summarized briefly:

- Many banks are amending their lending procedures with the aim of extending more credit to ghetto residents and businesses. However, even in the case of Government-backed programs, progress has been less rapid than many bankers had expected.

- Banks owned and operated by Negroes are exhibiting a mixed performance. In general, the older banks are growing slowly and rendering moderately adequate service to their communities. The banks launched in the first half of the 1960's typically have moved aggressively to serve their areas -- but at the cost of sizable and continuing loan losses. Several banks opened earlier this year seem to be getting underway reasonably well; they apparently have benefited from -- and thus have avoided -- some of the difficulties encountered by those banks started earlier in the decade. A number of other banks (to be owned and operated by Negroes) are in the process of organization around the country; However the outlook for some is not particularly promising -- especially where the organizers are attempting to create all-black institutions.

- Because of the high costs of starting and operating new banks -- and because of the fairly long break-even period they must ordinarily face -- it may be well to search for other alternatives to meet the banking needs of ghetto areas. Where State banking laws permit, the expansion of existing banks into the ghetto may be the best route.

- Although it may be more efficient to invent new kinds of banking institutions to finance some urban development projects, one ought to be fairly certain that this alternative is the only one available. One such proposal is to create community development banks which would be back-stopped by ear-marking the surplus earnings of Federal Reserve Banks. While the suggestion has attracted considerable support from some members of Congress as well as from private groups, in my opinion, it is not a good way to finance urban development.

- On the other hand, it may be possible to achieve a substantial increase in the availability of risk capital (which ghetto areas sorely need) by allowing commercial banks to expand their acquisition of equity securities -- as they can do now in their operations abroad.

Expansion of Commercial Bank Lending in the Ghetto

As I stressed above, if commercial banks have a comparative advantage in urban development, it lies in the field of credit and financing. But to exploit this advantage, banks are finding it necessary to modify both their lending standards and their lending practices. For example, in attempting to play a greater role in home financing in urban areas and depressed rural sections of California, one large bank has set aside $100 million to be invested in real estate mortgages. To implement the program, it reduced its minimum standards for homes by roughly one-third in order to lend against a wider range of structures. In the past, to be eligible, a house had to include 3 bedrooms, 1-1/2 baths and 1,000 square feet; these requirements were reduced to 2 bedrooms, 1 bath and 750 square feet.[1/] In addition, a special cadre of lending officers, with many years of experience in minority areas, was created to work on the mortgage loan program. Although the bank earns a profit under the program, the rate of return is less than that which could be gained from the acquisition of mortgages on homes outside the ghetto. Despite the special emphasis put behind the program, however, the bank has fallen behind the lending schedule projected. It has found the obstacles to lending on ghetto properties even more difficult to overcome than it had anticipated.

The need for many banks to review their lending policies in the personal loan category is clearly demonstrated by the way in which many of them have managed their share of the student guaranteed loan program established by the Higher Education Act of 1965. According to

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1/ The quantitative impact of such a change is hard to assess, since there has been a clear trend of supply toward upper-graded houses in recent years. For example, in the West, only 7 per cent of the new homes sold in the last few years had 2 or fewer bedrooms compared with 48 per cent of the stock of owner-occupied housing in this category in 1960. Of the 1960 owner-occupied stock in the West, 66 per cent had only 1 bathroom and 4 per cent had none or shared 1 bathroom; in 1967, only 11 per cent of the new supply (excluding mobile homes) was in the "1-bathroom" category. Source: Bureau of the Census, Census of Housing, 1960, and "Construction Reports - Sales of New One-Family Homes," Annual Statistics, 1967.

a study of the program recently made by the Federal Reserve Bank of Boston, the program works to the disadvantage of college students in ghetto families. This unintended effect (and perhaps unconscious result from many bankers' point of view) comes about primarily because of a shortage of loanable funds. In order to ration such funds, many banks restrict such loans to potential borrowers with previous deposit or customer relations with the institution. They also tend to give preference to borrowers in the banks' immediate service area. Both of these criteria tend to favor the more affluent middle class and suburban families -- and to put college students and their families who live in the ghetto to a considerable disadvantage in the competition for educational loans.

The criteria used by many banks to appraise loan applications submitted by minority group businessmen have a similar effect. Because the operations of these entrepreneurs are usually small, under-capitalized, and can exhibit a record of only indifferent performance, they ordinarily cannot qualify for loans under normal terms. Yet, the drive for business ownership in the ghetto is strong, and banks are increasingly identified as a source of hope -- or frustration or both. Recognizing this situation, many banks around the country (alone or in cooperation with other institutions) are devising special screening techniques and specialized loan programs which are beginning to meet some of these loan requests. The availability of Government guarantees (especially those provided by the Small Business Administration) has greatly enhanced banks' willingness to take on loans originating with ghetto businessmen. Moreover, banks have discovered that, to accomplish an even modest expansion of loans to such aspiring entrepreneurs, they must also provide a considerable amount of counseling -- and in many cases outright basic training in business management techniques.

Finally, numerous banks are also seeking new avenues of cooperation with minority groups in our central cities. In addition to broadening employment opportunities, revising lending policies and participation in community projects, some banks are inviting minority group members to join their boards of directors or to sit on advisory boards for branches located in areas populated primarily by minority groups. This approach appears to be especially appealing to minority groups in those communities where it has been tried. In states where many of the banks have a large network of branches, such representation may be a promising vehicle to enable the banks to reach out to minority groups in the urban ghettoes.

The Black Banks: An Assessment

In the meantime, efforts to launch new, black-controlled banks have grown into one of the most active movements on the urban development scene. So far during 1968, three banks have opened for business -- in Boston, Seattle and Kansas City, Missouri. In at least a dozen other cities, planning for new ghetto banks is progressing with different degrees of assurance.1/ The principal motivation underlying this

1/ The most advanced projects apparently are in Detroit and Pittsburgh. Efforts are also reported in Cincinnati, Cleveland, and Dayton, Ohio; Denver, Colorado; Dallas and Fort Worth, Texas; Greensboro, North Carolina; Indianapolis, Indiana; Jackson, Mississippi; Norfolk, Virginia; Oklahoma City, Oklahoma; Portland, Oregon; and San Francisco, California.

movement seems to stem from a conviction that only when Negroes own and control a large number of strong commercial banks will they be able to have access to bank credit on equal terms compared with other potential borrowers. This conviction also seems to be shared in varying degrees by a number of civil rights organizations, church groups, trade unions, and others. Thus, Negro-owned and controlled banks are conceived of as vital links in the process of urban development.

The extent to which this movement should be encouraged is a matter of considerable importance from the point of view of public policy. In order to improve our knowledge and understanding in this area, a major effort has been made in the last month-or-so to appraise the performance of the existing Negro-owned banks and to assess the general prospects for those about to be launched. As part of this inquiry, the examination reports on each of the banks for the last few years were reviewed by the Board's Staff. The Examination Departments in each Federal Reserve Bank were asked to provide an independent analysis of the experience of the Negro-owned banks in their Districts (if any) and to report on plans to start new institutions with similar sponsorship. In addition, a number of commercial bankers with long experience in selected cities where Negro-owned banks have been chartered recently (or are being planned) were asked to share with me their personal appraisal of each situation. By both written and oral comment, the views of those involved in the planning, organization, or management of Negro-owned banks have been collected.[1/] Finally, the views of other Federal bank supervisory agencies were ascertained. The following analysis draws on all of these sources.

At the end of 1967, there were 17 banks owned and operated by Negroes, and three new ones have been started this year. (See Table 1 attached.) These 17 banks had total assets of just over $162 million (and total deposits of about $147 million) at the end of 1967. Thus, their share of total assets represented 0.039 per cent of the total assets of all insured commercial banks. However, even this modest proportion reflected steady improvement; in 1958 their share of total assets was 0.019 per cent, and in 1962 it was 0.026 per cent.

To a substantial degree, the more rapid progress of the Negro-owned banks can be traced to the recently chartered institutions. While six of the banks were founded before the depression of the 1930's, most of them were launched after World War II, particularly in the last five years. Most of the new institutions are 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. In the last few years, a number of States have also chartered Negro-owned banks. It should also be noted that -- while the older institutions were primarily located in the South -- most of the new banks have been started in large northern and western cities with heavy concentration of Negroes.

As shown in Table 2 the rate of growth of the Negro-owned and operated banks has greatly exceeded that achieved by all insured commercial

1/ The Washington, D. C. office of the National Bankers Association (under the direction of Dr. Edward D. Irons) has also been particularly helpful through sharing statistics, analytical material and personal comments on Negro-owned and operated banks.

banks and by the smaller Federal Reserve member banks. Again, however -- as the statistics in Table 2 also make clear -- the faster expansion is due primarily to the recently chartered Negro banks.

The general character of the banking business as conducted by Negro institutions can be seen in Table 3, which compares several key ratios for Negro banks with those for all insured commercial banks and the smaller Federal Reserve member banks. It will be noted also that the typical Negro bank is quite small; at the end of last year, the mean of their asset holdings was $9.5 million compared with $33.2 million for all insured commercial banks. In relation to total deposits, the Negro banks tend to be more liquid than banks generally -- but not much more than other small banks. The share of their resources placed in loans is substantially below that for the banking system as a whole -- and also well below that for other small institutions. On the other hand, as shown in Table 1, there is wide variation among the Negro-owned banks in the proportion of their assets employed as loans to local customers.

The Negro banks seem to rely on time deposits as a source of funds to a much greater extent than do other banks. Moreover, their time accounts include a far greater proportion of small, individual savings accounts and consumer-type time deposits; they tend to have only a few of the large demonination negotiable certificates of deposits in which many corporate treasurers invest their liquid balances. On the other hand, some of the Negro banks (and especially some of the newer institutions) have sought actively to obtain corporate and public demand deposits, and they have been reasonably successful. Yet, the relatively large number of modest time accounts in the Negro banks necessarily imposes on them substantially higher operating cost -- without providing a commensurate volume of earning assets.1/

While this global view is interesting, it does not yield much information about the performance of the Negro-owned banks. For this purpose, it is necessary to rely on the bank examination reports on each institution. 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 net evaluation of Negro banks by the Federal Reserve Board's examination staff is shown in Table 4. 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 is 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

1/ For example, one of the larger Negro owned banks reports that its average time deposit is about $300, while it typically needs the earnings from a minimum account of $600 just to break-even.

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 Negro-owned 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 Negro-owned banks must be classified as of only fair quality. Generally, the volume of loan losses or loans about which repayment is doubtful is moderate. However, in several of the banks, losses have been heavy. In one case, the problem was traced to poor management control. In another case, the bank (a recently chartered one) 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 its 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.

The lack of management depth (the absence of competent junior officers) is common to most of the banks. In fact, the severe shortage of management talent is the outstanding problem facing them. For example, in two of the four banks whose management was rated as poor, the top executives were judged to be fairly good; but because of excessively small or weak staffs, the bank's overall performance was unsatisfactory. The average age of the chief executives in the Negro-owned banks is about 55, and the range is from 31 to 77. However, the younger officers tend to be concentrated in the recently chartered banks. In several of the older banks, the chief executives are well beyond normal retirement age. These banks in particular suffer not only from currently serious operating handicaps but they also face major questions of management succession.

The board of directors (especially in small institutions) can play an important part in strengthening the management of a bank. In a few of the Negro-owned banks, the bank examiners found this to be the case. However, in several of the banks, the directors relied heavily on active officers. In practically every report, the directors were described as capable men with independent judgment. At the same time, however, in several of the banks the directors lacked any banking experience, and policies and operations were left entirely to active officers. Moreover, while businessmen constitute the majority of most of the bank boards, there is also a heavy representation of professional men whose experience (which may be broadly based in their own areas) gives them little basis for guiding bank management.[1/] In one of the banks (where several of the directors were in their 70's and 80's), seven new board members were added in 1968, all of whom were about 50 years of age. This move is expected to result in substantial improvement of the bank.

One of the greatest deficiencies commented on in most of the examination reports was in the field of operations and controls. Again, the primary cause was the lack of experienced personnel. Partly in response to urgings by supervisory authorities, efforts are being made in several banks to remedy the situation. For instance, one of the banks recently hired a CPA firm to work with its auditor and, in effect, to train him. In another instance, a correspondent of one of the banks examined all phases of the bank's operations and made specific recommendations to the board of directors; it is expected that most of these will be carried out. A few of the banks have arranged (or are comtemplating the move) to have a correspondent handle demand and time deposit accounting on the latter's computer.

In Table 5, the asset evaluation and composite rating of Negro-owned 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

1/ For example, in 1967, the boards of 15 Negro-owned banks were made up as follows: 1 architect; 4 attorneys; 1 professional athlete; 3 contractors; 23 businessmen and merchants; 4 educators; 24 finance and insurance men; 1 professional politican; 3 publishers; 22 physicians; 7 ministers; and 8 retired persons.

Negro-owned 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 Negro-owned banks.

Earnings and Profitability of the Negro Banks

Generally earnings of the Negro-owned banks are poor. This is due to a number of circumstances of which the following are of most importance: a large number of employees, insufficiently controlled expenses, high interest expense, and heavy loan losses. While the first three factors apply to all the Negro-owned banks, the heavy loan losses are concentrated in the recently chartered banks.

In Table 6, several measures of bank profitability are summarized. The experience of Negro banks is also compared with that for all insured commercial banks. It will be noted that expenses in the Negro-owned banks are especially burdensome. In 1967, for them, expenses as a proportion of current operating income ran almost 20 percentage points higher than for all insured commercial banks. In the last five years, the differential has widened appreciably. Most of the relative acceleration can be traced to the recently chartered Negro-owned institutions. All except a few of these have opened in large northern and western cities where labor and other costs are much higher than in the nation as a whole.

This is reflected in the fact that salaries and wages as a percentage of current operating income have been lower for all banks than for the Negro banks. Moreover, in all insured banks taken as a group, the percentage has been generally declining while the reverse is true for the Negro institutions. Not only do the latter seem to have a relatively large number of employees for banks of their size, but they must also pay higher wages per employee. For example, in 1967, Negro banks with total deposits between $5-$10 million paid employees an average salary of $3,965, or 7 per cent more than the average of $3,707 paid by all insured banks. In Negro banks with total deposits between $10-$25 million, the average employees salary in the same year was $4,290, compared with $3,796 for all insured banks -- a difference of 13 per cent. In contrast, officers salaries in Negro banks were lower than in all insured banks of comparable size. For Negro banks with total deposits between $5-$10 million, officers' salaries averaged $9,340, or 2-1/2 per cent less than the average of $9,567 in all insured banks. In institutions with total deposits of $10-$25 million, the average was $9,319 for Negro banks and $10,568 for all insured banks -- a difference of 12 per cent.1/

Negro banks obtain a higher proportion of their current operating income from service charges than do all insured banks. While the relative importance of this source has been declining in all insured institutions, it has become of greater significance in the Negro banks. Again, given the heavy costs of handling a large number of small transactions, the Negro-owned banks (and particularly the recently chartered ones) have found it necessary to apply service charges to a much larger proportion of their accounts. On the other hand, Negro banks receive a somewhat smaller share

1/ These salary figures were compiled by the National Bankers Association from data supplied by the Federal Deposit Insurance Corporation.

of their current operating income from loans than do all insured banks. Moreover, for them the proportion has remained relatively static while it has been rising for banks generally. The rate of return on loans has been typically higher for Negro banks than for others -- perhaps reflecting the formers' somewhat heavier reliance on real estate loans. But in recent years (partly because of the loan losses sustained by the recently chartered institutions), the profitability of loans made by Negro banks has drifted downward -- while the reverse is true for all insured banks.

In fact, because of the adverse loan experience of the recently chartered banks, the Negro-owned institutions as a group have had no after-tax profits during the last three years. 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 of the 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. A similar pattern has emerged with respect to their net income after taxes as a percentage of total assets. In contrast, over the same period, the rate of return after taxes in all insured commercial banks has remained in the neighborhood of 9 per cent. If we distinguish between the recently chartered Negro banks and the older ones, quite a different picture emerges. While year-to-year variations are observable, the rate of return in the older institutions has continued about as before -- averaging about 5 per cent of capital. But for each of the recently opened Negro banks (with one exception), net losses have occurred each year, and the one exception has enjoyed only one year of profit, and that was 1967. In relation to capital, these losses have averaged almost 12 per cent per year. But for several individual banks, the loss rate has been not only greater but has become progressively larger each year.

Here, then, is the most disturbing aspect of the movement to launch new Negro-owned banks. Because of exceptionally high operating costs and adverse lending experience, they have found it extremely difficult to develop into viable institutions. The natural question to ask is whether these difficulties are unique to new ghetto banks or whether they are characteristic of new banks generally.

<u>Economics of De Novo Banking</u>

To answer this question, the operating and income experience was analyzed for all the new banks chartered in the United States during the three years 1962, 1963 and 1964. The results of this analysis are summarized in Tables 7 - 11.[1/] The banks were classified by source of charter (national vs. State) and size of deposits. During the three years, a total of 430 new national banks began operations, and 355 State-chartered insured nonmember banks opened for business.[2/] However, because of mergers

1/ The data employed were derived from the "Report of Income and Dividends," by calendar years for all insured commercial banks collected by the Federal Deposit Insurance Corporation.

2/ There were two or three State chartered banks which opened as members of the Federal Reserve System during the three years under review. However, these were eliminated to simplify the computer programming task.

and other changes, the final sample contained 399 national banks and 338 State insured nonmember banks.[1]

As Tables 7 and 8 show, the vast majority of newly chartered banks incur losses from current operations and in net income after taxes during the first year of operation. About three-quarters of both national and State banks experienced net current operating losses in their first year. One would expect this result as operating expenses are incurred before deposits are accumulated and employed in income producing loans and investments. However, during the second year of operations, roughly two-thirds of the banks had developed their operations to the point where their total operating earnings exceeded total operating expenses. From the third year on, all except a few of the banks had reached this stage.

With respect to net income after taxes, about four-fifths of the newly chartered banks experienced losses during the first year of operation, but in the second year, well over half of them had shifted to a profitable position. Here, however, a somewhat larger proportion of the banks were still experiencing net losses after taxes from the third year on than was the case with respect to current operations. This mainly reflects the impact of charge-offs for loan losses net of recoveries.

1/ The 31 national banks which were eliminated from the sample included 26 mergers; 3 banks were declared insolvent, and one each was involved in the absorption of another bank or a shell reorganization. The merged banks were in existence for an average of just under 4 years. Among the 17 State banks eliminated from the sample, 14 involved mergers, with the average longevity being about 3 years. The other 3 banks were shell reorganizations.

The magnitude of the operating and income results for the newly chartered banks are shown in Tables 9, 10, and 11. National banks as a group, ran a current operating deficit during the first year which averaged about $12 thousand, and the average for State insured nonmember banks was about $14 thousand. In the second year of business, net current operating earnings averaged $31 thousand for national banks and $24 thousand for the State chartered institutions. For both groups, the average margin of earnings over expenses widen steadily through the sixth year -- to $103 thousand for national banks and to $93 thousand for State banks. With respect to net income after taxes, both national and State banks experienced an average loss of approximately $20 thousand during the first year of operations. In the second year, both groups recorded an after-tax profit of just under $10 thousand. Subsequently, however, average profits of the national banks rose much more rapidly than did the profits of State chartered institutions. Some of the difference is explained by the larger relative size of the national banks. As indicated in Table 11, in the fourth year of operation, the typical newly chartered national bank had total deposits between $5-$10 million, compared with average total deposits between $2-$5 million for the typical State bank.

Finally, Table 11 also shows the performance of the newly chartered Negro-owned banks compared with that of banks in general. The first thing to note is that the average deficit from current operations ($30 thousand) and the average after-tax loss ($31 thousand) for the Negro-owned banks were substantially larger during the first year they were in business than for the other two groups of banks. It will also be noted that, in the second year, the Negro banks also shifted to a positive net operating earnings position. Moreover, their margin of earnings over operating expenses was higher -- and rose more rapidly -- than that registered by all new national and State banks. For example, in the fourth year of operations, the Negro banks had net current operating earnings which averaged $125 thousand -- compared with $75 thousand for national banks and $70 thousand for State institutions. It should be observed further that by the fourth year of operations, the five new Negro banks had total deposits which averaged between $5-$10 million.

Nevertheless, the final outcome for the Negro banks -- as measured by after-tax income -- was quite different from the results achieved by the other banks: not only did they record net losses each year but the average size of the losses rose steeply -- from $400 in the second year to $23 thousand in the third year and to $154 thousand in the fourth year. The main factor behind this unfavorable result is the heavy volume of loan losses which the Negro banks incurred. For example, in the second year of operations, these banks had net loan write-offs which averaged $9 thousand. In the third year, such loan losses rose to an average of $60 thousand, and in the fourth year they climbed to $180 thousand.

From the foregoing analysis, one must conclude that new Negro-owned banks do face a much more difficult task than do new banks generally.

Obviously, the difficulties do not spring from the fact that the banks are owned and operated by Negroes. Rather, the problems seem to arise partly from the fact that the market for their services is circumscribed by the general conditions in the ghetto -- high unemployment, low incomes, a low rate of savings and the marginal character of local businesses. But these obstacles are reinforced by the severe shortage of trained management personnel. While the latter difficulty must be faced by all banks (and especially by new ones), it is a particularly heavy burden for the Negro-owned banks. Moreover, when the latter attempt to build their staffs entirely from within the black community (as several have tried to do), an already difficult mission is made even less promising.

<u>Alternative Means of Providing Banking Services in the Urban Ghetto</u>

If newly chartered independent banks are likely to face extreme difficulties in trying to meet the banking needs of ghetto residents, what reasonable alternatives are there?

First of all, we should take note of the fact that some of the recently chartered banks owned and operated by Negroes are beginning to get better control of their internal operations. Several of the measures being taken were discussed above. Moreover, in at least one instance, a decision was made recently to bid less aggressively for time deposits -- although it meant the bank would face a slower growth rate for a year or so. This particular bank had built up a sizable volume of relatively large denomination certificates of deposit on which it was paying a high rate of interest.

By allowing that block of time deposits to run-off, the bank expects to achieve a considerable improvement in its current operating earnings.

Moreover, the new banks which opened this year seem to be getting off to a reasonably good start. They were able to raise more than the minimum initial capital required, and their banking quarters are well located. Their staffs have been chosen on the basis of available skills -- which has meant the employment of white persons and orientals as well as black people. The inflow of deposits has been fairly good, and in one case the buildup has already exceeded the level the bank's management expected to reach in the third year of operations. There is a clear indication that efforts are being made to keep operating expenses under close control from the very beginning. Of at least equal importance, the banks seem to be screening loan applications with special care to minimize the future incidence of losses. In at least one case, this has meant the employment of a significant share of deposits in participations with correspondent banks rather than in outlets carrying particularly high risks in its immediate market area. While this newest group of Negro-owned and operated banks has not acquired enough experience to enable one to predict their clear success, they have made a promising beginning. Thus, on the basis of thorough planning and careful operation, banks of this character may be able to contribute significantly to urban economic development.

Other approaches are available as well. One of these is the expansion of services in the ghetto through the building of new branches of large commercial banks where State laws permit. For example, one large

California bank has decided to establish another office in South Los Angeles -- although it already has several branches in that part of the city. However, the new branch will be rather unique: for practical purposes, it will be essentially a de novo bank planned, developed and operated in close cooperation with the residents of an area populated almost entirely by Negroes. The land on which the branch will be located has been assembled by a Negro real estate firm; a Negro architect will design the building, which will be constructed by a Negro contractor. The branch will be managed by a Negro who has acquired considerable experience as an officer in a number of the bank's existing branches in different parts of the city. The staff will be integrated; while some of them will be experienced employees transferred from other offices, several will be recent graduates of the bank's special training program aimed at persons of limited skills living in the neighborhood. So far, the area's reaction to the project appears to be quite favorable, and it will undoubtedly meet a significant part of the community's banking needs.

Still another approach has been developed in Minneapolis. In that city's Near North Side (which -- on a smaller scale -- has many of the characteristics of an urban ghetto), one of the large bank holding companies in the State will establish a de novo bank whose business is expected to come almost entirely from local residents. A number of banks have offices on the fringes of the Near North Side, and three are located in the area itself. However, partly because of new highway and urban renewal projects, the three banking offices within the area will be relocated -- in at least one case beyond the generally recognized boundaries of the community.

The application of the holding company to acquire the new bank presented the Board with a number of conflicting considerations. The applicant already controlled a significant share of the State's banking resources; together with a competing bank holding company based in Minneapolis, it also controlled a substantial portion of the Twin-City's deposits. Thus, by statute, the Board was required to determine whether the evidence established that the adverse competitive consequences which appeared inherent in the proposal were "clearly out-weighed" by likely benefits to the community. Such a clear out-weighing was not sufficiently demonstrated in the application itself. Indeed, the applicant's contention gave rise to conflicting judgments about the nature and scope of the needs of the community and the extent to which applicant's proposal would successfully serve these needs.

Only after further and extensive staff inquiries addressed to applicant's representatives, personal interviews with residents, businessmen and community workers in the area did there emerge a clear indication that numerous banking requirements of the ghetto community within the Near North Side were not being served in adequate measure. Having identified more clearly the particular deficiencies in the community's banking services, the Board was able to evaluate the validity of the proposals advanced by the holding company -- especially more convenient banking hours and an integrated staff, headed by a Negro president, whose training and experience would permit them to cope with the type of social and economic problems that would accompany loan applications from the community. Moreover, the staff was expected to take the time and steps required to encourage and develop loan applications.

On a weighing of the foregoing considerations, the Federal Reserve Board approved the acquisition of the new bank by the holding company. The Comptroller of the Currency had earlier granted a charter for the new institution, and the Federal Reserve Bank of Minneapolis had recommended approval of the application.

Here, then, are promising examples of the way in which large, existing banking institutions can help in the economic development of our urban ghettoes -- while at the same time involving the ghetto residents in a meaningful fashion.

Proposals for Community Development Banks

Earlier this year, still another approach was advanced to expand banking services in the ghetto. This one involves the creation of "Community Development Banks," and it appeared in several bills introduced in the last Congress; most of these bills also contained a number of proposals to foster community self-help efforts. One provision contained in virtually all of them would set aside a substantial share of net earnings of the Federal Reserve Banks to back-stop the newly established community development banks.

For example, S.3875 ("The Community Development Bank Act of 1968") would authorize the establishment of local community development corporations (CDC's) to be chartered by an independent Federal agency -- the National Community Corporation Certification Board. The CDC's would apparantly represent a blending of profit-making entrepreneural skills and non-profit social development arrangements. They would be eligible for certain grants and tax exemptions until the local community developed to the stage where such assistance was no longer needed.

The bill would also provide for Community Development Banks (CDB's); these local institutions would be organized by CDC's and chartered by the Comptroller of the Currency. These banks in turn would make loans to individuals and businesses related in various ways to the CDC's that formed them. A U. S. Community Development Bank would be established to serve as a secondary banking institution for the local community development banks: the nation-wide institution would also help develop areas that do not have local banks organized by CDC's.

There would also be established a National Community Development Bank Guarantee Fund, of which the Federal Reserve Board would be trustee. The resources of the Guarantee Fund would be provided by having the Board make available no less than 90 per cent of the aggregate net earnings of the Federal Reserve Banks when needed to back up the debt obligations issued by local community development banks. The Fund would be maintained at 25 per cent of the principal amount of these obligations falling due in any subsequent year. The Fund would also have available the earnings from investing its excess resources in U. S. Government securities.

If the bill were enacted, and using projected Federal Reserve Bank net earnings in 1968, the System would be required to pay approximately $2 billion annually into the proposed Guarantee Fund.

While I personally have serious reservations about the efficacy of trying to attack urban problems in the manner contemplated in the proposal, I will not attempt to assess its soundness or the desirability of the legislation as such. However, I think it would be helpful to inquire as to benefits and detriments of the suggested arrangement for using the Federal Reserve System's aggregate net earnings as the source of a Guarantee Fund for the obligations of community development Banks.

The System's gross earnings are derived principally from its portfolio of Government securities, etc., and to a much lesser extent from interest on advances of Federal Reserve credit. The considerations that lead to System actions that diminish or increase income are numerous and complicated, but they relate directly to economic phenomena. If the earnings of the System were used as guaranty obligations of CDB's, however, a political bias might be introduced. The scope of the functions of CDB's might then depend on the amount of funds derived annually from the Federal Reserve. In other words, actions tending to increase System income, such as expansion of the portfolio or increase of discount rates, would expand the potential of the CDB's, whereas action with the opposite effect would limit that potential. In my opinion, it would be undesirable to inject this factor into Federal Reserve deliberations.

By its very nature, the amount of the proposed National Community Development Bank Guarantee Fund would be an arbitrary amount, in no way tailored to the estimated needs or appropriate limits of the programs embodied in the proposed Community Self-Determination Act. The amount of the Guarantee Fund - and the consequent range of potential activities of CDB's -- would vary with monetary policy actions. Thus, the variations would have no necessary relationship to the intended scope and extent of the Community Self-Determination programs.

Consequently, I would urge those supporting this approach to urban development to re-examine it closely. My hunch is they will find it not so appealing after all.

Commercial Banks and Equity Financing

Finally, while I have doubts about the potential contributions of proposed community development banks, I believe there is need for a new vehicle through which commercial banks may participate more effectively in programs for urban development, including not only the financing and development of low-income housing projects but the financing of small and medium-size businesses, particularly through the purchase of equities.

At present, there are, of course, a number of programs provided by Federal law for private financing, with Government sponsorship and stimulus, of low-income housing developments, the most recent of which were incorporated in the Housing and Urban Development Act of 1968. There is also 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 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[1/] 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[2/], 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.

At the present time, there are 57 such foreign banking or financing corporations organized with the approval of the Board. As

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

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

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. Their total equity holdings as of June 30, 1968, were about $275 million. 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 abroad, 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 improvement 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. 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.

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 banks'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.

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.

Concluding Comments

The main theme of this paper was outlined in the first section, and the principal conclusions were also stated. However, so that my argument will not be misunderstood, let me reiterate my basic view:

I believe that commercial banks, while responding in a constructive way to the rising demands that they play a more active role in the quest for solutions to our urban problems, should concentrate on those areas in which they have a comparative advantage. While the opening of a greater number of jobs to minority groups (and helping to train them to fill such openings) is to be encouraged, the bank's most significant contribution is in the area of lending and credit financing. By imaginative modifications of their traditional lending practices, they can expand the availability of credit in urban ghettoes -- although to do so will require a considerable effort.

While I support the movement to charter banks to be owned and operated by Negroes, I also think each new project should be undertaken only after exceptionally careful planning. In the process, the availability of managment talent should be assigned especially significant weight. Obviously, I am not suggesting that Negroes cannot manage banks successfully. Rather, I am simply recognizing that -- partly because of the legacy of racial discrimination and segregation in this country -- very few Negroes have had an opportunity to acquire the experience called for in bank operations. While they are making strides in closing the deficit in skills, the rate of progress is not rapid enough to generate a supply of talents sufficient to enable staffing a large number of Negro-owned banks primarily with black people. In the meantime, if progress in the launching of such banks is to continue -- and even accelerate (as it should), the institutions must be willing to employ technical skills where they can be found -- even if they are embodied in members of other races.

Moreover, because of the high costs involved in launching small de novo banks, it is also desirable that alternative approaches be tried -- such as the opening of ghetto offices by the large established commercial banks. To me, this approach is certainly more appealing than an easy granting of new charters -- some of which might become primarily instruments for accumulating heavy loan losses resulting in the erosion of capital. This becomes especially significant when we recall that a good share of the capital of the new banks being chartered in the ghetto is obtained from investors who are far from rich.

I think the expansion of the opportunities for established commercial banks to cooperate with ghetto residents in the development of their areas is also preferable to the creation of local community development banks -- which would also encounter the same severe shortage of skilled managerial talent. My doubts are further strengthened by the conviction that the net earnings of Federal Reserve Banks should not be used to underwrite the activities of such institutions. Finally, I think it would be desirable to enact legislation which would authorize commercial banks to meet a larger share of the equity capital needs in urban areas -- via means similar to those which they can now use abroad.

Less some one get the opposite impression, let me hasten to say that I do take the problem of urban financing seriously, and I strongly favor an innovative search for means of quickening the pace of urban development. I suggest only that, while we face the issues with a sympathetic spirit, we also face our task with a clear head.

Table 1 Banks Owned and Operated by Negroes, by Year Founded and Comparison of Selected Asset Data with All Insured Commercial Banks, December 31, 1967. (Negro-owned banks: millions of dollars; All banks: billions of dollars)

Name and Location of Bank	Year Founded	Total Assets	Loan Deposit Ratio (Per cent)	Liquidity Ratio (Per cent)
1. Consolidated Bank and Trust Co. Richmond, Virginia	1903	9,334	57.0	21.5
2. Citizens Savings Bank and Trust Co. Nashville, Tennessee	1904	4,797	42.3	56.2
3. First State Bank Danville, Virginia	1919	3,693	61.8	18.0
4. Citizens Trust Co. Atlanta, Georgia	1921	16,998	37.6	29.2
5. Mechanics and Farmers Bank Durham, North Carolina	1921	19,223	39.0	39.4
6. Victory Savings Bank Columbia, South Carolina	1921	2,007	49.0	46.5
7. Industrial Bank of Washington Washington, D. C.	1934	17,477	45.6	25.3
8. Tri-State Bank Memphis, Tennessee	1946	6,898	56.5	33.8
9. Carver State Bank Savannah, Georgia	1947	2,594	37.2	50.0
10. Douglas State Bank Kansas City, Kansas	1947	7,493	58.6	26.4
11. Riverside National Bank Houston, Texas	1963	4,744	54.5	33.0
12. Bank of Finance Los Angles, California	1964	6,951	44.5	36.8
13. Freedom National Bank New York, New York	1964	27,210	46.0	50.0

Table 1 (continued)

Name and Location of Bank	Year Founded	Total Assets	Loan Deposit Ratio (Per cent)	Liquidity Ratio (Per cent)
14. Independence Bank of Chicago Chicago, Illinois	1964	9,023	37.8	58.5
15. United Community National Bank Washington, D. C.	1964	5,766	52.0	41.2
16. Gateway National Bank St. Louis, Missouri	1965	5,286	41.5	42.0
17. Seaway National Bank Chicago, Illinois	1965	12,685	48.0	46.7
18. Liberty Bank of Seattle Seattle, Washington	1968	n.e.	n.e.	n.e.
19. Swope Parkway National Bank Kansas City, Missouri	1968	n.e.	n.e.	n.e.
20. Unity Bank and Trust Co. Boston, Massachusetts	1968	n.e.	n.e.	n.e.
Negro-owned Banks: Total (Millions of dollars)		162,177	46.0	38.5
All Insured Commercial Banks: Total (Billions of Dollars)		448.9	65.0	31.0

Source: Federal Deposit Insurance Corporation; Annual Report, 1967 and National Bankers Association.

n.e. - Not in existence as of December 31, 1967.

Table 2 Annual Average Rates of Growth of Total Assets of Selected Banks, 1957-66 (Per cent)

Type of Bank	1957-66	1957-63	1963-66
All Insured Commercial banks	5.0	3.2	8.9
Federal Reserve member banks with total deposits between $5-10 million	2.2	1.4	3.9
Negro-owned banks	11.4	9.0	16.6
Excluding recently chartered banks	-	-	5.8

Source: Federal Deposit Insurance Corporation; Annual Reports. Board of Governors of the Federal Reserve System.

Table 3 Selected Comparisons of Negro-owned and Other Banks, December 31, 1967

Ratios (Per cent)	Negro-owned Banks	F.R. Members with Deposits of $5-10 million	All Insured Commercial Banks
Cash and U.S. Gov't/ total assets	38.5	35.0	31.1
Cash/total assets	13.7	13.6	17.2
U.S. Gov't/total assets	24.8	21.3	13.8
Loans/total deposits	46.0	53.6	59.8
Time deposits/total deposits	54.9	50.9	46.8
Capital/risk assets	5.8	23.6	24.3
Memo: Mean asset size of bank (millions of dollars)	9.5	8.0	33.2

Table 4 Supervisory Evaluation of Negro-owned Banks, 1967 and 1968

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

Table 5 Asset Evaluation and Composite Rating of Negro-owned Banks and a Sample of Federal Reserve State Member Banks, 1967

Category			Rating Class			
Composite Rating:			1	2	3	4
F.R. Members Sample:	Number	677	439	211	24	3
	Percent	100.0	65.0	30.8	3.6	0.6
Negro-owned banks:	Number	15	3	7	4	1
	Percent	100.0	20.0	46.6	26.7	6.7
Asset Rating			A	B	C	D
F.R. Members Sample:	Number	677	536	106	25	10
	Percent	100.0	79.5	15.7	3.7	1.1
Negro-owned Banks:	Number	15	5	6	3	1
	Percent	100.0	33.3	40.0	20.0	6.7

Table 6 Profitability of Negro-owned Banks Compared with All Insured Commercial Banks, 1958-1967

Class of Bank and Profit Variable	1958	1962	1967
Total expenses as per cent of total current operating income			
All banks	66.0	70.3	76.0
Negro banks	76.2	84.4	95.3
Net current operating earnings before taxes as per cent of total current operating income			
All banks	34.0	29.7	24.0
Negro banks	23.8	15.6	4.7
Income on loans as per cent of total current operating income			
All banks	60.5	63.2	67.2
Negro banks	56.8	57.8	56.1
Service charges as per cent of total current operating income			
All banks	5.7	5.6	4.5
Negro banks	9.3	10.6	14.4
Salaries and Wages as per cent of total current operating income			
All banks	28.8	25.7	21.3
Negro banks	30.1	31.7	33.2

Table 6 (continued)

Class of Bank and Profit Variable	1958	1962	1967
Interest paid on time and savings deposits as per cent of total current operating income			
All banks	16.2	23.3	33.9
Negro banks	22.8	26.6	30.6
Net income after taxes as per cent of total assets			
All banks	.75	.73	.75
Negro banks	.66	.48	-.41
Net income after taxes as per cent of capital account			
All banks	9.6	8.8	9.6
Negro banks	7.6	5.6	-5.4
Rate of return on loans			
All banks	5.4	6.0	6.5
Negro banks	6.7	8.0	7.1

Source: National Bankers Association.

Table 7 Current Operating Experience of Newly Chartered Banks, by Year of Operation (Number of Banks)

Type of Charter	Year Chartered	Number of Banks in Sample	Net Result	YEAR OF OPERATION 1	2	3	4	5	6
National Banks									
	1962	68							
			Profit	19	51	64	63	64	68
			Loss	47	15	3	5	3	0
			Break-even	2	2	1	0	1	0
	1963	151							
			Profit	25	101	134	143	145	
			Loss	123	48	17	8	6	
			Break-even	3	2	0	0	0	
	1964	180							
			Profit	40	107	164	171		
			Loss	137	71	14	9		
			Break-even	3	2	2	0		
State Insured Nonmember Banks									
	1962	101							
			Profit	14	67	95	98	100	98
			Loss	81	31	5	3	1	3
			Break-even	6	3	1	0	0	0
	1963	117							
			Profit	23	91	107	112	114	
			Loss	89	23	9	5	3	
			Break-even	5	3	1	0	0	
	1964	120							
			Profit	20	81	111	116		
			Loss	95	33	8	4		
			Break-even	5	6	1	0		

Table 8 Net Income Experience of Newly Chartered Banks, by Year of Operation (Number of Banks)

Type of Charter	Year Chartered	Number of Banks in Sample	Net Result	YEAR OF OPERATION 1	2	3	4	5	6
National Banks									
	1962	68							
			Profit	13	48	55	57	57	64
			Loss	53	19	12	9	9	4
			Break-even	2	1	1	2	2	0
	1963	151							
			Profit	19	84	111	123	130	
			Loss	129	60	30	26	21	
			Break-even	3	7	10	2	0	
	1964	180							
			Profit	29	82	138	152		
			Loss	149	95	39	27		
			Break-even	2	3	3	1		
State Insured Nonmember Banks									
	1962	101							
			Profit	14	63	89	88	99	91
			Loss	81	36	11	11	2	10
			Break-even	6	2	1	2	0	0
	1963	117							
			Profit	24	80	95	101	105	
			Loss	89	30	21	16	12	
			Break-even	4	7	1	0	0	
	1964	120							
			Profit	17	70	103	107		
			Loss	99	46	17	12		
			Break-even	4	4	0	1		

Table 9 Average Net Current Operating Earnings of Newly Chartered Banks, by Year of Operation (Thousands of Dollars)

Type of Charter	Year Chartered	Number of Banks in Sample	YEAR OF OPERATION 1	2	3	4	5	6
National Banks								
	1962	68	- 7	40	55	63	81	103
	1963	151	-14	18	41	61	80	
	1964	180	-14	35	79	100		
State Insured Nonmember Banks								
	1962	101	-18	11	44	60	78	93
	1963	117	- 6	39	57	78	92	
	1964	120	-17	22	58	71		

Table 10 Average Net Income of Newly Chartered Banks, by Year of Operation (Thousands of Dollars)

Type of Charter	Year Chartered	Number of Banks in Sample	YEAR OF OPERATION 1	2	3	4	5	6
National Banks								
	1962	68	-13	19	25	29	35	57
	1963	151	-18	5	18	25	37	
	1964	180	-29	0	28	41		
State Insured Nonmember Banks								
	1962	101	-19	2	21	23	28	31
	1963	117	-16	22	24	33	42	
	1964	120	-23	5	22	34		

Table 11 Average Profitability of Newly Chartered Banks, by Year of Operation (Thousands of Dollars)

Type of Charter and Measure of Profitability	Number of Banks	Average Deposit Size: 4th Year of Operation (millions of dollars)	YEAR OF OPERATION 1	2	3	4	5	6
Negro-owned Banks	5	5-10						
Average net current operating earnings			-30.2	39.4	80.4	125.4		
Average net income			-31.0	-0.4	-23.0	-154.0		
National Banks	399	5-10						
Average net current operating earnings			-12.0	31.0	58.0	75.0	80.0	103.0
Average net income			-20.0	8.0	24.0	32.0	36.0	57.0
State Insured Nonmember Banks	338	2-5						
Average net current operating earnings			-14.0	24.0	53.0	70.0	85.0	93.0
Average net income			-19.0	9.0	22.0	30.0	35.0	31.0

Note: Net income is after payment of income taxes.