

# Minority Owned Banks Impact on Community:

## Three Case Studies



## **Introduction**

As of 2001, there were 164 Minority Depository Institutions (MDIs) in the United States. By 2017, this figure dropped to 155, but throughout the years, the numbers have fluctuated, with 2013 having 174 MDIs reported. Although MDIs have many similarities in terms of their general make up and missions of their community, the ways through which they help build their communities can differ drastically. This analysis examines three different MDIs, discussing their contribution and interactions with their community and the different strategies these MDI's employ.

This report pursues detailed questions on how minority owned banks serve their community by giving examples of minority owned banks and projects they have completed that serve their community. Banks included in this study are: United Bank of Philadelphia, a Black-American owned bank in Philadelphia, PA; International Bank of Commerce, a Hispanic-American Owned Bank in Laredo, TX; and CBW, an Asian-American owned bank in Weir, KS.

## **Educational Lending in Philadelphia and United Bank of Philadelphia**

United Bank of Philadelphia is a black owned bank, located in Philadelphia, PA, that celebrated its 25<sup>th</sup> anniversary in 2017. The mission of United Bank of Philadelphia is to:

...deliver excellent customer service at a profit and to make United Bank of Philadelphia the "hometown" bank of choice. Our goal is to foster community development by providing quality personalized comprehensive banking services to business and individuals in the Greater Philadelphia Region, with a special sensitivity to Blacks, Hispanics, Asians and women. (<https://www.ubphila.com/About-Us.aspx#Our-Mission>)

One of the ways they have cemented their place as the "hometown" bank in Philadelphia is through building relationships with the community institutions, such as churches and educational programs.

In 2015, Philadelphia Technician Training Institute (PTT), a non-profit training school, bought the former Berean Institute building for \$2.2 million to open a new institute for the training of welders,

automotive technicians, and manufacturing technicians (DiStefano, 2015). The opening of PTT and the training of technicians would not have been possible without community involvement, fund raising, and a business loan from the United Bank of Philadelphia.

PTT has developed three training programs, for welders, automotive repair, and manufacturing technicians; all of which help to change in quality of life for those who complete the training and their families. Each program can be completed in 26 weeks for \$16,800; this cost, combined with forgone income, gives the opportunity cost of attending PTT. In 2016, the BLS estimated the mean weekly income for an individual who completed high school to be about \$679 or \$35,308 per year, making forgone income for the estimated 26 weeks to completion, \$17,654. The opportunity cost of attendance is therefore approximately \$34,454 for the training.

For individuals who pursue PTT's welding program, their expected average income would grow to about \$48,990 per year in the Philadelphia area, approximately \$13,682 more than an individual with only a high school diploma. For an individual who works for 45 years, this increase would amount to \$615,690 in additional lifetime earnings. Those who complete this program expect to see a breakeven return on investment in a little over 2.5 years, making the program well worth the time and investment for those who complete it.

The second program offered at PTT is automotive repair. Similar to the welding program the opportunity cost of attendance is \$34,454 for the six-month training program. With a mean income for automotive repair technicians in Philadelphia at \$49,400, those who complete this program can witness \$14,092 in additional annual income (an additional \$634,140 in lifetime earnings). The breakeven return on investment from this educational investment is about 2.44 years. This is slightly faster than for the welding program.

The final program offered is a manufacturing and automation program, preparing those who complete it to work with the fast-changing technology that is involved in manufacturing. Although

precise earnings estimates are not available for this occupation, it is reasonable to expect similar costs and returns as with the other two training programs.

This additional income not only benefits the individual and their families, but also the community and state and local economies, since higher wages lead to greater tax revenues to put towards community services. Additional tax revenue estimated as part of the impact of PTT on the local economy exceeds \$1.2 million.

This is not the only way PTT benefits the community. Additionally, the community sees a financial benefit created by the creation and operation of PTT through the goods and services provided to PTT by the community. These purchases and investments drive economic activity in the surrounding area. This analysis employs IMPLAN to measure the Economic Impact of the PTT. IMPLAN, an input-output model, estimates the jobs and revenues generated by the operation of the school. It also measures the impact of the marginal income created by the increase in human capital. The increase in human capital results in the graduates' increases in earnings based on their education. These jobs and earnings will create direct and indirect tax revenues, as well as indirectly created job and financial numbers. By capturing the "multiplier effect," the IMPLAN model allows the reader to see the full impact of the expenditures. The multiplier accounts for "indirect spending," such as supplies required for the original product being measured, and "induced spending," such as money re-circulating in the economy due to employee spending. This increase in economic activity is measured through direct, indirect, and induced economic activity. The direct effect of PTT includes what is spent on the surface, or the first round of spending in the local economy. The spending of PTT has a direct effect resulting in the creation of 38 additional jobs, an additional \$2.1 million in labor income and \$3.6 million in additional output in the local economy.

In addition to direct effects, there are additional levels of economic impact, including for those who provide goods and services to the companies that directly serve PPT. Those impacts are measured in the indirect and induced effects. The indirect and induced effect on employment created a combined

additional 35 jobs, with additional labor income exceeding \$1.8 million and additional output of over \$6.1 million. After accounting for direct, indirect, and induced effects from PTT, the estimated total effect on the local economy is the creation of 73 jobs, \$3.9 million in additional labor income, and \$9.8 million in additional output.

An example of the effect that United Bank of Philadelphia has on its community is shown through its commitment to PTT, whose existence was assisted by United Bank's business lending. Further, the PTT is only one of many instances of how United Bank help develop the community through economic and social investments, which allow individuals and groups to flourish economically and socially.

### **Small Business Administration Loans in Texas and the International Bank of Commerce**

The International Bank of Commerce (IBC) is located in Laredo, Texas, along the U.S.-Mexico border. This research focuses on one aspect of IBC's lending: loans supported by the Small Business Administration (SBA). SBA loans, by definition, support small business growth and employment, usually through the SBA's 7(a) loan program.

Founded in 1966, IBC has expanded greatly since its founding, regularly reporting close to 10 billion dollars in assets, and operating across Texas and Oklahoma with around 192 branches spread out across these two states. IBC is a part of one of the largest minority owned banking institutions in the United States, the International Bancshares Corporation, which operates as a bank holding company, with IBC as their largest subsidiary, along with three other subsidiaries.

IBC's growing into one of the largest minority owned banks in the country is partly due to a focus on lending to communities straddling the U.S. – Mexico border, along with financing and facilitating trade across the border. The focus of the bank since its inception was to “make loans to small businessmen on both sides of the border,” building relationships in the Mexican-American community and across the

border. (Gwynne, 2001). This “small-town” focus formed one aspect of IBC’s commitment to its community.

Cross border trade helped regional growth, and IBC noted “[trade-related] companies, ... need[ed] financing and other bank services,” with IBC utilizing local connections to generate sustained growth (Gwynne, 2001). Part of IBC’s growth stems from servicing these trade companies.

Their focus on utilizing SBA loans has been noted and held up as an example, with former Texas State Senator Eliot Shapleigh referencing IBC as a “lend[er] to people who are typically denied credit. They use SBA loans heavily...” (Gwynne, 2001). IBC lending to small businesses through SBA loans signals that an SBA guarantee on these loans is necessary to cover some of the risk of lending to certain small business. Overall, a larger presence of SBA loans signals that a bank is willing to make riskier loans, given SBA backing, and IBC has been recognized as one of these lenders in the past.

SBA loans vary in amount, with no necessary minimum. The maximum is \$5 million. These loans may be used for most business uses. The core program that the SBA uses to facilitate their loans is through their 7(a) loan program, named after the section of the Small Business Act of 1953, which established the SBA and the core loan program. To be eligible, businesses must fit the SBA definition of a small business. In addition, the SBA works with assisting small businesses obtain funding for exports through the Export Working Capital Program, guaranteeing lenders 90% on loans made to small business for exporting purposes.

The SBA provides data on all SBA supported loans from 2003-2017, but data on bank involvement are only available starting in 2009, with full bank matching data from FDIC Call Reports currently through 2016. Therefore, data utilized here on SBA loans in Texas cover the years 2009-2016. While credit unions also make SBA loans, they only made 296 SBA loans in Texas, compared to 2,000 by banks during this period. As IBC is headquartered in Texas, the overall assessment focuses on other banks in Texas.

The data are aggregated within each bank that provides SBA loans, separately for each year, with all estimates using Stata 15.1. Table 1 includes data regarding Texas banks providing SBA loans, the mean number of loans, average jobs created per loan, and mean dollar amount for each year.

Table 1. Number of SBA loans per bank, jobs created, and mean value of loans, Sample of banks making SBA loans

Year	Number of SBA loans per bank	Jobs per loan	Mean value of loans (2016 \$s)
2009	2.73	15.2	\$1,212,530
2010	3.22	11.1	\$1,088,113
2011	2.70	12.1	\$1,064,287
2012	3.23	15.2	\$1,215,545
2013	3.20	13.6	\$1,272,069
2014	2.67	15.2	\$1,304,342
2015	2.42	13.2	\$1,797,162
2016	2.27	14.1	\$1,790,658

*Note:* Mean value of loans adjusted to 2016 values using the annual CPI-U from the U.S. Bureau of Labor Statistics.

Depending on the year, Texas banks on average provided between 2.42 and 3.23 SBA loans, with a reported 11.1 to 15.2 jobs on average created per loan. Overall, the range in values of number of SBA loans per bank varies by .81, with no discernable trend in number of loans or jobs per loan per year. The mean value of loans (in 2016\$) ranges from just over \$1million to \$1.8million, again with no discernable trend. Note also that many Texas banks do not service SBA loans.

Data from the 2<sup>nd</sup> Quarter FDIC Call Reports for 2009-2016, provided by SNL, were matched to the SBA data as follows. First, the SBA loan data, which includes one observation per loan, were aggregated to the annual level for each institution (as in Table 1), thereby creating bank/year data. Second, the initial 10 digits of the bank name, the complete city name, and the two-digit state abbreviation were concatenated to create a single identifying variable for each bank in both the SBA and Call Report data at the annual level. This procedure matched a majority of bank/year observations between the data sets, but left almost 600 observations unmatched. Third, the SBA data were checked

for differences in the spelling of bank names, and these were corrected to FDIC spelling (e.g., the FDIC does not include “the” at the beginning of bank names). Fourth, city name divergence was identified, as it was discerned that some SBA data placed the bank in a branch location, and not headquarters; these cases were corrected to reflect bank headquarters. Finally, cases where multiple observations on an institution in the SBA data were unmatched were checked to ascertain whether these were credit unions. This procedure left 190 credit union/years accounting for 296 SBA loans, and raised the number of bank/years to 705, which accounted for 2,000 SBA loans. Most banks in this sample did not make SBA loans, as 3,788 bank/years were not associated with any SBA loans (i.e., only 15.7% of bank/years were associated with SBA loans). Looked at somewhat differently, 437 Texas banks never made an SBA loan during the 2009-2016 period, while 205 banks (approximately one-third) made at least 1 SBA loan during the period.

This dataset offers an opportunity to examine a bank’s individual SBA loans. In total, IBC made seven SBA loans during the period. Those loans had a combined value of \$11.8 million, and directly created 93 jobs. The job creation estimate is well above that predicted by Brown and Earle (2017), who estimate that 3-year SBA loan job creation on average is 3-4 jobs per \$1 million in loans. If that relationship held for IBC, then only 35 to 47 jobs should have resulted. This difference suggests that IBC targets loan recipients who create approximately 2 to 3 times as many jobs for a given loan value.

Looking more closely at IBC, the SBA also provides loan information for 2017, when IBC made an additional three SBA loans. Those loans were worth a combined \$12.0 million, and supported 29 jobs. Combining these figures with those from 2009-2016 yields a total loan value of \$23.8 million, and 122 jobs, or 5.1 jobs per \$1 million in loan value, which is still well above the 3-4 jobs estimate of Brown and Earle (2017).

Finally, consider the sectors where IBC SBA loans were made. As shown in Table 2, IBC provided loans to a variety of business sectors, including hotels, medical services, floor covering, transportation,

sports training and fitness. The greatest level of job creation for loan value involved Eduardo’s Mexican Food, with 36 jobs created for just over \$ 1 million in lending, while the lowest involved Volleyball Performance Academy, with no estimated jobs created for a \$212,000 loan.

Table 2. Specific SBA loans from IBC

<i>Business Name</i>	<i>Industry</i>	<i>Loan Amount</i>	<i>Jobs</i>
Aziz Oriental Rug Gallery Inc.	Floor Covering Stores	\$656,250	1
Comfort Inn & Suites	Hotels (except Casino Hotels) and Motels	\$2,762,960	10
Cromex Forwarding Inc.	Freight Transportation Arrangement	\$1,522,800	20
Eduardo's Mexican Food, Steaks	Full-Service Restaurants	\$1,102,232	36
E & M Ventures, LLC	Other Clothing Stores	\$1,284,000	2
Volleyball Performance Academy	Sports and Recreation Instruction	\$212,500	0
La Quinta Inn & Suites	Hotels (except Casino Hotels) and Motels	\$3,655,000	24
April 9th Investment LLC	Fitness and Recreational Sports Centers	\$2,345,985	5
Homewood Suites	Hotels (except Casino Hotels) and Motels	\$8,454,160	19
OnSite X-Rays LLC	All Other Outpatient Care Centers	\$1,245,719	5

In sum, IBC is one of the rare Texas banks that participate in SBA loans. During the period, IBC made 10 SBA loans, worth \$23.8 million, and creating 122 jobs, or 5.1 jobs per \$1 million in SBA loans, which is well above the average figure for SBA job creation. Finally, note that local multiplier effects were not considered. That is, assuming the 122 jobs would not have been created absent the IBC/SBA loans, the individuals holding those jobs gained disposable income that would have increased local spending and led to further job growth. Although estimating precise job multiplier effects is beyond the scope of this paper, it is likely that it is above one (see Dwyer, Forsyth and Spurr, 2004), and hence that more than 122 jobs were created in this process.

## CBW and Agricultural Loans

CBW is located in the small town of Weir, Kansas. In 2009, Google veteran Suresh Ramamurthi and his wife purchased what was at the time a failing bank (Hochstein, 2015), making it an Asian American owned bank. The bank turned around quickly, in large part because of technical innovations around payment systems, and Ramamurthi was named the *American Banker's* Innovator of the year in 2015.

Although the bank's reputation centers on online banking, its rural location is unique among Asian American owned banks. Among the other 71 (in 2016) up to 96 (in 2010) Asian American owned banks, FDIC Summary of Deposits data places at least 96.7% of deposits (as of 2010), and 98.3% of deposits (as of 2016) in urban locations. By way of contrast, those same data show that the foundation of CBW's deposits is rural.

Given the rural location, serving the community of Weir should involve making agricultural loans. The FDIC Call Reports for the 2<sup>nd</sup> Quarter of each year provide data on the percentage of total lending devoted to either farming real estate or agricultural production. Table 3 contains the data from the 2<sup>nd</sup> quarter of 2010 to the 2<sup>nd</sup> quarter of 2016. This data includes agricultural lending. The figures suggest that CBW allocates more than 10 times as much of its lending to agricultural production, compared to all other Asian American owned banks.

Table 3. Average Agricultural Lending as a Percentage of All Lending, CBW and Other Asian American Owned Banks

<i>Year</i>	<i>CBW</i>	<i>Other Asian American owned banks</i>
2010	15.5%	0.6%
2011	12.8%	0.6%
2012	15.6%	0.6%
2013	13.5%	0.6%
2014	11.8%	0.5%
2015	19.9%	0.5%
2016	19.0%	0.6%

Source: FDIC Call Report Data, 2<sup>nd</sup> Quarter of each year, provided by SNL.

As a formal test for this difference, the dependent variable is agricultural production variable. The random effects regresses for the population of Asian American owned banks. A dummy variable for CBW was included, and the coefficient on the variable was significant ( $p < .01$ ) and positive (14.93).

While CBW stands out in comparison to other Asian – American owned banks in terms of agricultural lending, the FDIC also classifies CBW as a community bank, and CBW’s agricultural lending figures can be compared to other institutions with a similar classification.

The FDIC has specific definitions as to what institutions are defined as a community bank, “excluding banks with more than 50 percent of assets in specialty banks”, with greater than “10 percent of their overall assets in foreign offices”, and if they have “no loans or... core deposits.” Those that remain need to fall within certain loan to asset ratios and be located within a limited region among other restrictions; however, the most noticeable aspect is having an asset size less than 1 billion dollars, as of 2010, (FDIC 2012). When looking at the FDIC’s Community Banking data for the observation period, the FDIC identifies 92.3 percent of banks as community banks.

Consider the FDIC Call Report data for the 2<sup>nd</sup> Quarter from 2010 to 2016, with the addition of an identifier from the FDIC’s Community Banking Study for banks that fall under the FDIC’s classification for a community bank. Table 4 compares the average percentage of agricultural lending between CBW and all other community banks.

Table 4. Average Agricultural Lending as a Percentage of All Lending, CBW and Other Community Banks

<i>Year</i>	<i>CBW</i>	<i>Other Community Banks</i>
2010	15.5%	15.0%
2011	12.8%	15.3%
2012	15.6%	14.6%
2013	13.5%	14.8%
2014	11.8%	15.4%
2015	19.9%	16.7%
2016	19.0%	16.7%

Source: FDIC Call Report Data, 2<sup>nd</sup> Quarter of each year, provided by SNL, FDIC Community Banking Study

Taking into account the larger sample of community banks, CBW's percentage of agricultural lending each year falls closer to the average of all the other community banks, noticeably closer than the previous average of Asian American owned banks. Additionally, CBW's percentage of agriculture lending every year in the sample period falls within one standard deviation of the average of all community banks, suggesting that CBW allocates a similar amount of lending to agricultural concerns as other community banks.

Using the same formal test procedure as with Asian American banks, a random effects regression on the sample of community banks with agricultural production as the dependent variable was conducted. CBW is represented again as a dummy variable, and no effect can be found for this dummy variable ( $p = .962$ ), indicating that CBW does not differ from other community banks.

After taking into account community banks, the next step is to compare CBW to all banks in terms of agricultural lending. Table 5 covers the percentage of agriculture lending from CBW and all other banks, utilizing the FDIC Call Reports measured in the 2<sup>nd</sup> quarter of each year from 2010 to 2016.

Table 5. Average Agricultural Lending as a Percentage of All Lending, CBW and All Other Banks

<i>Year</i>	<i>CBW</i>	<i>All Other Banks</i>
2010	15.5%	14.0%
2011	12.8%	14.4%
2012	15.6%	13.7%
2013	13.5%	14.0%
2014	11.8%	14.5%
2015	19.9%	15.2%
2016	19.0%	15.7%

Source: FDIC Call Report Data, 2<sup>nd</sup> Quarter of each year, provided by SNL.

Comparing these figures, CBW falls within one standard deviation of the average of all banks, allocating similar amounts to agricultural concerns as all other banks in the FDIC Call Reports.

A random effects model using all banks in the time period, with the same identifier for CBW and agricultural production as the dependent variable, again finds that CBW does not noticeably differ from all other banks ( $p = .925$ ).

Taken together, CBW loans more to agricultural concerns, towards either agricultural production or real estate for farming, than other Asian American owned banks, and approximately 10 times more than other Asian American banks. However, when expanding the observations to all other community banks and all banks in general, there is no notable difference between CBW and all other community banks and all banks in general, in terms of the percentage of agricultural loans of these institutions. CBW, in terms of agricultural loans, acts more similar to other community banks and all other banks, rather than other Asian American owned banks. This, in part, can be attributed to CBW location in rural Kansas, with agricultural concerns being paramount to the region, while most other Asian American owned banks have their deposits from urban locations.

In sum, although known as one of the nation's most innovative online banks, CBW indeed serves the small town of Weir, Kansas, with substantial agricultural lending.

## **Conclusion**

As shown in the case studies throughout this analysis, minority owned, community-serving institutions are an integral part of the development of a community's economy, and for the promotion of the economic welfare of minority groups within those communities. These few stories share some limited sense of the important effects these banks have on their communities, and the importance of a strong relationship between a community and a local bank. The trust that a community bank can instill in its community can promote a strong basis for community growth and development.

This growth and development is especially important in disadvantaged communities of color, who experience particular types of discrimination and barriers. Community focused, minority owned banks

serve these communities in ways that other banks could not or will not, ways that allow the community to see positive changes and economic development. As these, and other projects by community banks, continue, the communities will see the benefits of these programs in their community and beyond for years into the future.

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