NEXT CITY

A COLLABORATION BETWEEN NEXT CITY & **COMMONFUTURE.**

Table of Contents

NEXT CITY

To contact us:
Next City
P.O. Box 22449
Philadelphia, PA 19110
(267) 239-0762
info@nextcity.org

To become a Next City member: Go to nextcity.org/membership. Your donation is critical to support our writers, photographers and staff who report on stories and curate events that galvanize social, economic, and environmental change in cities.

To explore underwriting partnerships: Contact lucas@nextcity.org to discuss content or reporting collaborations.

To advertise with us: Contact pardise@nextcity.org for a copy of our media kit.

COMMONFUTURE.

Common Future makes an equitable economy possible by investing in solutions that advance racial equity.

With special thanks to:

Co-Founder of Worthmore
Caitlin Morelli

Dear Reader,

Our mainstream banking system is failing most of us. This is not news or even a controversial statement – this is a reality that all of us have to contend with. In just the past few weeks, JP Morgan Chase (our largest bank) **recorded its most profitable year ever with $50 billion in net income** and Navy Federal Credit Union (our largest credit union) was found to have the "**widest disparity in mortgage approval rates between White and Black borrowers of any major lender.**" All of this, while Americans are finding it hard to **cover expenses in an inflationary environment** and household debt rose to its **highest level of $17.3 trillion** with the highest interest rates we've seen since 2001. It's easy to point fingers and blame the individual institutions, but we know the problem is bigger than just one bank or one credit union – it's the system that allows for this to continue.

We can get often lost in the myriad of problems and get stuck in a cycle trying to explain the many ways the banking system is failing us. Don't get me wrong – it is important for us to be able to clearly understand and explain the problem from all angles. Yet, it distracts us from the fact that there are also people and communities building solutions and creating new pathways for a more equitable banking system. This work of creating new institutions that serve our communities is challenging to move forward while we operate in our dominant system that seeks to extract from them. It's hard to get attention, traction, funding, and acceptance. But, sometimes we have moments where this hard work is brought to light and can flourish.

During the early days of the COVID pandemic we had one of these openings, where we saw how Paycheck Protection Program loans that were distributed through our mainstream actors failed to reach the majority of small businesses run by entrepreneurs who are Black, Indigenous or People of Color. In that moment, we saw a resurgence of attention and funding to support our Community Development Financial Institutions (CDFIs) that seek to reach people shut out of the mainstream funding spaces. And just one year ago we had another of these moments, with the failure of four banks – Silicon Valley Bank, Silvergate Bank, Signature Bank of New York, and First Republic Bank. It's in these moments that have an opening for us to challenge the mainstream system and bring forward our community-centered ideas that build financial security and stability for all of us. In the wake of this, we've seen attention growing on who owns these assets and how to create institutions that can create opportunities for community level wealth building.

What is important for us to remember is that this work has been happening and will continue to happen – whether or not these moments of opportunity open for us. These community-level solutions being built to address the failures of our banking system require our attention, participation, and funding. Without it, we will not be able to effectively challenge the dominant banking system.

We hope this selection of Next City's journalism provides a slice of what continues to be built and sustained despite the challenges of existing in our current extractive systems. For those newer to this space, we hope it gives you the inspiration to join in and activate yourself in service of a more equitable banking system that provides safe and affordable products for its customers, invests in local communities, and enables broad based wealth building. For those who are already in this work with us, we hope it reminds you that we are not alone and we are gaining traction. Change is inevitable and we are already creating it.

In solidarity,

Sandhya Nakhasi
Co-CEO, Common Future

Featured Writers

Oscar Perry Abello

Oscar is Next City's senior economic justice correspondent. He previously served as Next City's editor from 2018-2019, and was a Next City Equitable Cities Fellow from 2015-2016. Since 2011, Oscar has covered community development finance, community banking, impact investing, economic development, housing and more for media outlets such as Shelterforce, B Magazine, Impact Alpha and Fast Company.

Articles: *What Recent Bank Failures Reveal About The Economy, How to Understand Your Financial Institution's Risk, How To Find And Assess Your Bank's Balance Sheet, Why Minority-Led Banks Are Crucial To Communities of Color, 4 Financial Institutions That Show Us A Better Banking System Possible, How to Understand Your Financial Institution's Risk, Credit Unions Are Taking The Lead To Un-Redline The Green New Deal, The Seeds Of Economic Recovery Are Already Sprouting Roots In The Bronx, 4 Banks That Established Unusual Structures To Protect Themselves, At Long Last, North Minneapolis' Black Residents May Soon Have A Credit Union Of Their Own, 5 Lessons For Starting New Financial Institutions That Serve Communities.*

Paul Pryde

Paul Pryde was the U.S. Treasury Department's chief policy consultant during the Obama administration, overseeing a $1.5 billion effort to provide financial guarantees for job-creating small businesses. He has also served as a consultant and board member for various national policy development organizations, such as Wall Street Without Walls, the Minority Business Development Agency, the Northeast-Midwest Institute, and Prosperity Now (formerly Corporation for Enterprise Development), where he chaired for four years. Paul is the author of "Black Entrepreneurship in America," which explores enterprise formation and economic progress within the African American community.

Article: *Deposit Insurance Reform Offers A Path To Public Purpose Banking*

What Recent Bank Failures Reveal About The Economy

Focusing on wealthy people and their startup investments is not a sign of good risk management at a bank.

As publicly chartered institutions, banks do have an obligation to meet public needs, not simply earn profits. A version of this article was originally published in Next City on March 13, 2023.

Banking has never been about avoiding risk. It's about managing risk. For years, especially during an era of near-zero interest rates that lasted about a decade, it appeared Silicon Valley Bank and its ilk were managing risk well. But now it should be clear that focusing mostly on wealthy people and the startups in which they invest is not a sign of good risk management at a bank.

The sudden collapses of Silicon Valley Bank, Silvergate Bank and Signature Bank of New York in the spring of 2023 are the consequence of relying so heavily upon clients with unproven startups, the funds that invest in those startups, and the wealthy people who invest in those funds.

It makes sense for banks to do some amount of business with startups and their investors. In fact, it might be better for society if a much greater number of banks were willing to do business with earlier-stage businesses. If that were the case, the struggles that hit the tech sector might have been absorbed more easily across many more institutions instead of falling so squarely on a handful of banks.

But those three banks, and a handful of others now in the hot seat, threw too many of their eggs into the startup basket, including and especially cryptocurrency startups like the (allegedly) fraudulent FTX.

If you bank with a credit union, a more typical community bank, a community development financial institution or even a large bank, your bank is most likely not as reliant on that toxic mix of tech sector startups and their wealthy investors. So you don't have as much to worry about. Your bank isn't in the same situation. Probably.

You don't have to take my word for it – check out your bank's website, social media or other marketing to see for yourself if it's been pushing hard to attract startups as clients. Startups aren't just risky investments. What we've seen in 2023 is how they can also pose a risk if you rely so heavily on them – as well as startup investors – as depositors.

In other words, one of the reasons Silicon Valley Bank collapsed was because as a bank, it didn't do business with more communities outside of startups and startup investors (and certain industries with strong social ties to them, like wine). As those clients flourished, the bank flourished, and when things went sour for them, they went sour for the bank.

Most startups aren't yet generating positive cash flow. Most startups, especially in Silicon Valley, raise cash from angel investors or venture capital funds, which they start spending on salaries and operations until the next round of capital raising. That well of easy money dried up over the past few years due to a combination of the pandemic and, more recently, rising interest rates. But thousands of startups kept burning through cash, drawing down on deposit balances at Silicon Valley Bank.

In the cases of Silvergate Bank or Signature Bank of New York, those banks in particular pushed hard to do business with cryptocurrency exchanges. Some of those firms are also startups with no proven cash flow. But more to the point, cryptocurrency exchanges were withdrawing cash at even higher rates as clients of the exchanges divested from cryptocurrency. Silvergate lost more than two-thirds of its deposits in the fourth quarter of 2022 after cryptocurrencies collapsed.

If Silicon Valley Bank or the other banks had a more diverse deposit base, the evaporation of cryptocurrency exchange deposits or the slow burn of startup deposits might have been cushioned by influxes in other sectors or customer segments. But as it was, Silicon Valley Bank's deposit base started to shrink, though more slowly at first.

When a bank's deposit base starts to shrink, it initially has a few options for what to do. It can borrow from somewhere else to replace the deposits it lost on the liabilities side of its balance sheet, or it can sell off some loans or other investments on the asset side of its balance sheet. Either way, it has to keep its assets equal to its liabilities – that's why they call it a balance sheet.

If Silicon Valley Bank had been willing to make more "vanilla" loans to homeowners or for affordable housing or a wider array of small businesses, it might have been able to sell some or more of those assets to other banks or investors.

Instead, as long as deposits were coming in from startups raising endless rounds of private investments, Silicon Valley Bank ended up buying up Treasury bonds and mortgage-backed securities over the past decade, during the era of near-zero interest rates. All banks purchase some Treasury bonds and mortgage-backed securities since they're generally considered safe, reliable long-term assets. But because they were purchased during periods of such low interest rates, and interest rates are now suddenly higher, if the bank had to sell those bonds and securities it would have to sell them at less than their original value. And it did, selling $21 billion in bonds at nearly $2 billion less than face value. That loss spooked the bank's investors, who started selling off their shares in the bank.

Consider, also, that many of Silicon Valley Bank's depositors are also financial advisors. At the time of reporting, at least 5,949 of the bank's accounts were custodial accounts, meaning they're cash managed by venture capital funds and other professional, registered investment advisors. Word about the bonds sold at such a huge loss spread quickly through networks of financial professionals, who started pulling out deposits held by their funds and telling startups in their portfolios to pull out their deposits.

All told, Silicon Valley Bank's depositors requested withdrawals of $42 billion in deposits in one day alone – and that's all in addition to so many startups that had already been drawing down their deposits more slowly over the previous year.

If Silicon Valley Bank or the other banks had a more diverse deposit base, the evaporation of cryptocurrency exchange deposits or the slow burn of startup deposits might have been cushioned by influxes in other sectors or customer segments. But as it was, Silicon Valley Bank's deposit base started to shrink, though more slowly at first.

In the end, it was a classic "bank run." Based on the assets it could have potentially sold off, Silicon Valley Bank couldn't have matched the amount requested in deposit withdrawals. Part of the reason the FDIC was created in the midst of the Great Depression was to intervene in this situation and ensure at least the average person could recover what they had in deposits in the bank.

That's why the FDIC's deposit insurance technically only covers up to $250,000 per depositor. The FDIC temporarily seizes a failed bank and sends a check to each depositor for what they're owed up to $250,000, then it has to figure out what to do with the rest of the bank's balance sheet. It might auction off the failed bank's assets bit by bit, or all at once to another bank. It could keep the proceeds of those sales, use the proceeds to pay back those who held deposits above the insurance limit, or pay back former shareholders of the failed bank.

Since the 2008-2009 financial crisis, the FDIC has preferred to make sure no one loses any deposits, even the deposits over and above the deposit insurance limit. Silicon Valley Bank and Signature Bank are also unusual in that 90% or more of the deposits they held were above the deposit insurance limit – a function of serving mostly startups and startup investors with millions in each of their accounts. Most banks have just 40-60% of their deposits above the deposit insurance limit since many businesses and government entities need to keep millions in their accounts on a daily basis just for cash flow reasons, such as payroll.

The merits and legality of the methods used will be debated ad nauseam for years among banking industry observers, but the solutions put forth in March 2023 from the Federal Reserve and FDIC do resolve some of the more potentially disastrous collateral damage. Thousands of founders and even more startup workers gained access to payroll payments and the rest of their companies' deposits normally shortly after the collapse. Same for the many philanthropic foundations and grantees who were relying on the former Silicon Valley Bank to process grant payments.

Congress was not called upon to pass legislation funding a bailout package to the shareholders and executives of Silicon Valley Bank or Signature Bank, both of which functionally no longer exist as corporate entities. The Federal Reserve and U.S. Treasury used previously authorized emergency funds to provide any necessary liquidity to provide depositors of the failed banks with access to their deposits. Any losses incurred by the FDIC's deposit insurance fund will be replaced by industry-wide "special assessments," meaning all other banks will contribute to replace any deposit insurance funds that can't be replaced by the proceeds of the FDIC selling the assets or deposits from Silicon Valley Bank or Signature Bank to other institutions.

If all those thousands of startups had been distributed across a much greater number of banks or maybe if they banked at a bank that also made more "vanilla" home mortgage loans or small business loans that could have been sold off a balance sheet in a pinch for less of a discount, the slow decline of startup capital cash flow might have been absorbed more easily and much more quietly. A bunch of community banks might have had a bad quarter or bad year, but they would have had the collective ability to absorb a large number of limited losses per bank.

The question of why only one or a handful of banks have been allowed to concentrate so much of their deposits and assets in risky sectors like tech startups and startup investors is a huge question for regulators and the legislators who are supposed to hold regulators accountable. Doing business with startups doesn't have to be for all banks, but more banks could or should be involved in supporting these sectors and regulators have ways to encourage more of them to do so, and to do it as part of a more comprehensive portfolio serving a broader swathe of people and communities. But of course, public officials can't be entirely to blame when handsomely-paid banking industry lobbyists are whispering in their ears.

How To Understand Your Financial Institution's Risk

Every bank or credit union is supposed to take risks with the assets they hold in their portfolio – the challenge is deciding which risks to take and how much of any risk may exist at any moment in time. The banking industry recognizes different categories of risk, including credit risk, interest rate risk, liquidity risk, compliance risk, even reputation risk. As one of the three main federal banking regulators, the Office of the Comptroller of the Currency has a handy overview of the different kinds of risks.

Credit risk is the one most familiar to those who aren't professional bankers. In brief, credit risk is the risk of the underlying borrower eventually repaying the initial loan or investment.

From a credit risk perspective, U.S. Government Securities are one of the safest investments to hold, almost as safe as cash, because like cash they're backed by the full faith and credit of the U.S. Federal Government. That's just as true now as it was before the Silicon Valley Bank collapse, and it's why every bank has at least some of its portfolio invested in U.S. Government Securities. As long as the Federal Government exists and has the authorization to pay its bills, U.S. Government Securities will pay interest and won't default (in theory, but the debt ceiling is a politically-imposed constraint we won't get into right now).

Corporate bonds are generally considered next safest, assuming they're rated "investment grade" by a reputable rating agency like S&P, Moody's, Fitch or KBRA. That's because if a corporation goes bankrupt, bondholders have the right to be repaid first in a firesale of the corporation's real estate, machinery and other assets. Corporate equities or stocks are riskier, because corporate shareholders are second in line after bondholders in the case of a corporate bankruptcy firesale. Most shareholders expect if a company goes belly up, they won't get back their investment.

Loans vary in terms of perceived risk, based on underlying collateral and other factors. Unsecured loans made without collateral are riskier than secured loans, secured by property, cash or other assets. But all loans are generally considered riskier than U.S. Government Securities or blue chip corporate stocks or bonds, since they're not backed by one of the world's most powerful governments or wealthiest corporations.

Silicon Valley Bank's demise has to do with interest rate risk. While U.S. Government Securities are very safe from a credit perspective, they carry more risk from an interest rate perspective because they are generally fixed-rate investments – meaning the interest rate is set from the moment of the initial sale of the security. Most of Silicon Valley Bank's U.S. Government Securities were acquired during a period when interest rates were very low. But it needed to sell $21 billion of those securities when interest rates had risen significantly, which meant it needed to sell them for less than what the bank originally invested or paid to acquire those investments.

That sale for a loss spooked the bank's depositors and sparked a bank run.

But as I explain in my previous story about the collapse of Silicon Valley Bank, the reasons why that bank had to sell those U.S. Government Securities for a loss and the consequences of that sale are very specific to that bank and a handful of others. Nearly all other banks have a very different set of circumstances. Take M&T Bank, which is about the same size as the former Silicon Valley Bank was, but has far less in U.S. Government Securities on its balance sheet and a deposit base that hasn't been bleeding cash. Silicon Valley Bank was a very unusual bank that specialized in a very particular niche, which came back to bite them in the end.

Most banks and credit unions have a balance sheet that looks more like M&T Bank, even if they are much smaller in overall size. Many community banks and credit unions have 70%, 80% or even 90% of their portfolios in loans.

But you don't have to take my word for it. Go and check out your bank or credit union for yourself.

How To Find And Assess Your Bank's Balance Sheet

If you've ever wondered what your bank is invested in, there's good news for you. Your bank or credit union's balance sheet is public information, and it's updated quarterly.

Here's how to find your financial institution's balance sheets, along with some basic information about risk levels and resources to understand more about the risk of some assets versus others.

1. Finding your bank's balance sheet

Search for a bank's financial reports by institution name in the FDIC's BankFind database.

Sometimes a bank's actual name is different from what it goes by – M&T Bank for example is actually " Manufacturers and Traders Trust Company." You can also search by a bank's website, which might be more reliable for those who are now accustomed to online banking.

Let's just stick with M&T Bank for now. Click on the bank's name in the search results. On the page that comes up, you'll see a dropdown menu toward the bottom. In that menu, select "Assets, Liabilities, and Capital." Then hit the "Generate Report" button below.

2. Checking your bank's assets

Click on "Total Assets" – turns out, it's a dropdown tree with multiple levels. The first level that comes up includes the basic big buckets:

- Cash and balances due: That's cash on deposit at other banks, including at the Federal Reserve, which serves as the main bank for banks. If you click on that item it'll show you the breakdown between cash at other private banks and cash at the Federal Reserve.

- Securities: That's stocks and bonds. Click on that and the breakdown appears between various categories of securities, including U.S. Government Securities.

- Net loans and leases: As you might expect, this is the biggest bucket for most banks. Click on "net loans and leases" and you'll reveal some basic categories of loans, some of which overlap – real estate loans, loans to individuals that include some real estate loans, breakdowns of commercial real estate loans and real estate loan types. There's a line for "Small Business Loans"; click on that to see a breakdown of those loans, some secured by real estate as collateral and some not secured by real estate collateral. The Mighty website combines this data with other public data to generate a profile of each bank or credit union with an even deeper analysis of each bank's impact on its communities.

3. Checking your bank's liabilities

Clicking on "Total Liabilities and Capital" reveals the bank's capital stack.

- "Total equity capital" consists of shareholder dollars and accumulated profits held by the bank as its capital base. Roughly speaking, bank regulations require banks to have around $1 in equity capital for every $12 in total assets, or a minimum ratio of around 8%. Most banks like to stay well above that as a cushion.

- "Total liabilities" consists almost entirely of deposits. Clicking on that reveals some important breakdowns. Clicking on "Deposits held in Domestic Offices" reveals an estimate of the bank's federally insured deposits.

There are tools like Insured Cash Sweep and CDARS that allow depositors to automatically split up their cash across multiple banks to keep their accounts below the $250,000 threshold, but for a variety of reasons not everybody uses those tools.

The "Deposits held in Domestic Offices" breakdown also shows checking accounts (transaction accounts) versus savings accounts and certificates of deposit or other limited access accounts (non-transaction accounts). Clicking on either of those reveals aggregated breakdowns of who holds those deposits at any given bank – individuals and private businesses, government entities, and foreign entities.

Next, scroll down if necessary and click on the "Domestic Deposits and Maturity Based on the FDIC Insurance Threshold" line to reveal additional information including how many accounts at the bank are under the FDIC deposit insurance threshold, how many accounts are above the threshold, and how much in deposits each of those buckets hold. Other breakdowns show how much in certificates of deposit the bank currently holds – listed as "time deposits."

Finding your credit union's balance sheet is a slightly different process

Go to the National Credit Union Administration's Research a Credit Union Tool and you can search for your credit union by name. In the search results that appear, next to the credit union you want to see click on "view." In the profile page that comes up, there's some basic, useful information. For the full picture, find the dropdown menu under "Call Report" on the right-hand side of the page. Pick the most recent date, and then click "download" below.

You'll get a PDF file that contains all the information above, the same as banks – remember to look for the pages that say "assets" or "liabilities" at the top. Scroll a few pages past that and you can see credit union call reports also show the exact number of active loans broken out by category, as well as the average interest rate for each loan category.

Why Minority-Led Banks Are Crucial To Communities of Color

These financial institutions have seen remarkable and unprecedented growth since the pandemic. **That's good news.**

If you've ever wondered where local developers or local businesses get funding to build, acquire, improve or maintain your neighborhood's cornerstores or other small storefronts, the answer is probably a community bank.

Despite the ubiquity of the top four largest banks – Chase, Bank of America, Wells Fargo and Citi – community banks collectively still do more commercial real estate lending than these largest four banks combined, according to data reported to federal bank regulators.

Small developers and small businesses still prefer dealing with a small, local bank that can deal with them face-to-face, someone who knows them and knows the neighborhood and can see past what's on paper to what existing residents in the neighborhood might want to have or want to keep around. Relationships still matter. Place still matters.

"Fundamental in providing credit is understanding where you're lending," said John Lewis, CEO of The Harbor Bank of Maryland, a Black-led community bank in Baltimore.

"It's understanding the market and understanding your borrowers and understanding the character of your borrowers," Lewis said. "Because community banks are so much a part of the fabric of the communities that they serve, by understanding those communities better, frankly, it allows them to do traditional analysis and assess risk in their communities ultimately better than folks from out of market might assess that risk."

Relying on relationships and place to drive access to credit has its downsides, particularly in a country where communities tend to be geographically and socially segregated by race.

If you're one of the Baltimore metro area's 1.7 million white residents, people who look like you own and operate 12 community banks serving people and neighborhoods that look mostly like yours. But if you're one of the Baltimore metro's 840,000 Black residents, there's only Harbor Bank.

That racial disparity wouldn't matter as much if every bank was equally connected to every community regardless of race. But the evidence so far shows the contrary, according to a new report produced by Johns Hopkins University's 21st Century Cities Initiative and the National Bankers Association. That's the main national trade association for minority-depository institutions (MDIs), which are federally-insured banks whose ownership or leadership is at least 51% one or more racial minorities.

There's some good news. In terms of assets, the report found that MDIs have grown from $246 billion in 2010 to $329 billion in 2022, which percentage-wise roughly mirrors the growth of all **FDIC-insured** institutions. And although the number of MDIs has declined since 2010, also reflecting the overall trend in the banking sector, there are slightly more MDIs today than there were on the eve of the pandemic.

It's remarkable and unprecedented given how hard the pandemic hit communities of color, according to Robert James II, chair of the National Bankers Association.

"This is the first time in U.S. history that after an economic convulsion, in this case a pandemic, there are more MDIs, not fewer, and existing MDIs have more capital, not less," said James, who is also CEO of Carver State Bank in Savannah, Georgia.

In a pattern that is as predictable as it is frustrating, banks still tend to locate branches in neighborhoods that reflect their ownership or leadership. Analyzing bank branch location data from across the country, the new report found MDIs tend to locate branches in ZIP codes whose populations reflect their particular minority designation – Asian, Black, Hispanic, Native or multi-racial. Meanwhile, non-MDI banks (including large banks) locate branches in ZIP codes that are overall 80% white, just 4% Black, 2% Asian and 7% Hispanic.

While it's true that today white-owned banks do serve people and communities of color, and MDIs also serve some white clients, James said that where branches locate and what the people who own and run a bank look like still matter a great deal.

"Even though banking is becoming far more digital and mobile, there's still a psychological value for people in seeing an actual bank branch, even if they never go inside," James said. "To physically see people from that community who raised the capital and have a business model to serve that community is still important, to have bankers and bank leaders who know those communities."

"The biggest issue in lending is making sure you know the character of the borrower," James said. "Especially if it's a new business or new venture, the question is do you believe this person is going to do everything they can to pay you back? It's important to have someone who can relate to you to give you the benefit of the doubt."

But there's another downside to relying on local social networks as part of operating the banking system – local communities themselves must raise the necessary startup capital to charter a bank. If generations of slavery, Jim Crow or other legalized discrimination means some communities have less wealth to invest, it's harder for those communities to start new banks. Which helps explain why there are so few MDIs, as well as why they aren't evenly distributed across the country.

"These banks have been undercapitalized for decades, and that's curtailed their ability to deepen their impact and broaden it across more geographies," said Anthony Barr, co-author of the new report, and research and impact director for the National Bankers Association Foundation.

According to the report, MDIs have branches in 32 states and U.S. territories, in 92 different cities, and 732 different zip codes. But half of all MDI branches are in just five metropolitan areas – Los Angeles, San Juan, New York, Miami, and McAllen, Texas. The pattern reveals that MDIs tend to locate in urban areas where businesses serving communities of color or immigrant communities tend to emerge, which then generates enough wealth to invest in one or more MDIs serving those communities.

One zip code in Los Angeles County had 23 minority bank branches, representing 17 different institutions, all of which were Asian- or Pacific Islander-American owned or operated. A zip code in McAllen, Texas had 15 minority bank branches from six different institutions, all of which were Hispanic-American owned or operated. At the same time, there are 174 zip codes – with some 3.5 million residents – where a minority bank had the only branch in that zip code.

But having an urban area with at least some concentration of communities of color is no guarantee there will be an MDI. The report cites seven large metropolitan areas with no MDI bank branches at all: St. Louis, Pittsburgh, Phoenix, Cincinnati, Cleveland, Indianapolis and **(until recently)** Columbus.

> **"Because community banks are so much a part of the fabric of the communities that they serve, by understanding those communities better, frankly, it allows them to do traditional analysis and assess risk in their communities ultimately better than folks from out of market might assess that risk."**
>
> -John Lewis, CEO of The Harbor Bank of Maryland

Even Chicago, with its 2.7 million residents being one-third white, one-third Hispanic and one-third Black, there's only three MDIs left. Just one of these MDIs remains on the predominantly Black South Side of Chicago, where it is the last remaining Black-owned bank in a city that once boasted more Black-owned banks than any other.

At the end of the day, the question still needs answering – does having access to banking and credit from an MDI really improve quality of life for communities who have that access? On at least one front, the National Bankers Association found evidence supporting that hypothesis.

Where MDIs do have branches, the new report found evidence pointing to a connection between the presence of an MDI bank branch in a zip code and economic mobility for people of color in that zip code. Barr said it's not clear yet which direction the relationship goes – does having an MDI branch nearby make households of color more economically mobile? Or do more economically mobile households of color help attract and sustain an MDI bank branch? But there is a correlation between the two, and that, he said, warrants further study.

Barr hopes that the road ahead will lead to more insights through more data sharing, either voluntary data shared with the National Bankers Association from its members – or through the long-awaited implementation of demographic reporting requirements for small business lending, mandated more than a decade ago as part of the Dodd-Frank Act.

More data and deeper analysis will also help bring clarity to the question of whether there needs to be more MDIs or if it would just be easier to scale up existing MDIs to reach more places. The answer is most likely a little bit of both, Barr said. Some MDIs have grown over the past decade in part by acquiring other struggling MDIs in other cities. Detroit's First Independence, a Black MDI, recently opened up its first branch in the Twin Cities.

Columbus only just got a new Black MDI, Adelphi Bank, **whose origin story Next City covered earlier in 2023**. There have been other MDIs in Ohio that didn't survive prior periods of economic turmoil, which almost inevitably hit Black communities harder than white communities. Adelphi Bank is actually named after Adelphi Building Savings & Loan, which had once been located one block from the new bank's new headquarters in a historically-Black section of the city.

4 Financial Institutions That Show Us A Better Banking System Is Possible

Banking consolidation has left too many communities without financial institutions that understand, value, and invest in who they are in real life, not just who they are on a loan application.

There are 4,200 community banks and 4,700 credit unions, but only 122 banks and 503 credit unions are designated as minority banks or credit unions. Part of making sure the banking system serves the public is making sure there are full-service financial institutions that are embedded into more communities and serve all people.

Original Articles:

First New Black Bank In 20 Years Breaks The Mold For Raising Startup Capital

Somebody Actually Started A New Credit Union. Here's How They Did It

This Black Barber Opened The First Credit Union In Arkansas Since 1996

How To Build A Bank To Scale Up Local Food Ecosystems

1. Adelphi Bank

Date Established: January 18, 2023

Location: Columbus, Ohio

How It's Serving the Public Interest: This bank's founders and investors are investing in a new community bank that is serving a historically marginalized community. Adelphi Bank plans to have a diverse loan portfolio including small business loans for both new and existing businesses, commercial real estate loans, home mortgage loans and credit cards.

2. Community First Fund Credit Union

Date Established: June 30, 2023

Location: Lancaster, Pennsylvania

How It's Serving the Public Interest: Its parent organization Community First Fund has been investing in Black, Hispanic, immigrant and other entrepreneurs whom traditional financial institutions weren't interested in serving since 1992. It found that the families and communities around those entrepreneurs either weren't getting access to banking and affordable credit elsewhere or would prefer access to banking and affordable credit from a name and face they've come to trust.

3. People Trust Community Federal Credit Union

Date Established: September 16, 2022

Location: Little Rock, Arkansas

How It's Serving the Public Interest: After making loans from a barber college then establishing People Trust Community Loan Fund, a not-for-profit, federally-certified community development financial institution, founder Arlo Washington saw that his community needed more. The plan is for the credit union to take over the small dollar consumer loans, including payday loan alternatives and used car loans, that the loan fund has been doing all these years.

4. Walden Mutual Bank

Date Established: October, 2022

Location: Concord, New Hampshire

How It's Serving the Public Interest: Mutual banks don't have conventional shareholders — they're owned and controlled by its depositors, similar to a credit union. This bank, specializing in local food and agriculture lending across New England and New York, already has more than 1,000 depositors and $44 million in assets, including loans to farmers, organic food production facilities and even a project to build a solar array over a sheep grazing meadow to add some income for the farmer.

Deposit Insurance Reform Offers A Path To Public Purpose Banking

A finance specialist makes the case for unlimited deposit insurance – for banks serving the public interest.

In the wake of Silicon Valley Bank's collapse, regulators and lawmakers started discussing a number of ways to prevent future bank failures. Topic one is altering the $250,000 limit on FDIC deposit insurance. Several lawmakers are pushing to eliminate the FDIC insurance cap on all transaction accounts, at least temporarily; Janet Yellen has also indicated support for increasing deposit insurance coverage.

The discussion about changing the insurance limit has so far focused on (a) whether and how it would stabilize the banking system, and (b) ensuring that U.S. taxpayers won't be on the hook for increased insurance costs. But how might increased deposit insurance coverage be used to make the banking system better at serving the public interest?

Back in 2008, irresponsible mortgage lending brought the financial system to its knees. A couple of big investment banks went under, some investors took heavy losses, a few senior managers lost their jobs. But, thanks to the government's action, the banking system survived and, except for the few unfortunate casualties, emerged largely unscathed – and basically unchanged. The heaviest costs of the meltdown were borne by ordinary people who lost their homes, jobs and life savings.

When a bank makes a loan, it makes sure that the borrower will use the money for a legitimate purpose and has the willingness and ability to repay the debt. When you or I make a bank deposit, we in fact become the bank's creditors. The bank owes us the amount we've entrusted to it. We, however, don't get any say in how the bank will use the deposited money. And, largely because of federal deposit insurance, most of us don't have to worry that we will get repaid. As long as our accounts are under $250,000, we know we'll get back the amount we deposited no matter what happens to the bank.

We have this confidence not because we believe that fees paid by banks will maintain the FDIC insurance fund's solvency, but because we understand that, ultimately, we the taxpayers are standing behind the safety of bank deposits.

To me, this doesn't seem equitable. If things go well, bank shareholders and managers keep the profits; if they don't, we have to make up the losses.

There's a more just alternative to simply providing unlimited deposit coverage to banks that may need it to stay afloat. Any bank can receive unlimited deposit coverage provided that most – let's say at least 80% – of its assets meet a defined "public purpose" test. We can call these new banks "public purpose banks."

Defining what assets qualify as having public purpose may be a tricky task. One solution: specifying that any loan or investment that is guaranteed or insured by a federal or state agency qualifies.

According to the Congressional Budget Office (CBO), federal loan guarantees now total almost $12 trillion. Characterizing these loans as eligible "public purpose" assets has a couple of advantages. First, it will ensure the safety of banks receiving unlimited deposit coverage. When borrowers default, the guarantee ensures that a governmental entity will pay most of the losses. Plus, government-guaranteed loans can easily be sold to investors, ensuring that a bank can easily raise cash should it need to meet increased depositor demand.

The second advantage is that federal or state guarantee programs are almost always targeted to finance projects – such as infrastructure upgrades, economic development in distressed neighborhoods, small business support and affordable housing – that need help securing funds and are essential to the nation's economic health and the public's interest.

CBO also estimates that in 2023 the federal government will guarantee about $2 trillion in new loans to assist farmers, homeowners, small business owners, veterans and others. In the aggregate, these programs are remarkably inexpensive. By one estimate, they actually have a negative cost; that is, they make money. One reason is that most borrowers repay their loans and the government only incurs a cost when they don't. The second reason is that for several programs, fees paid by borrowers and lenders are sufficient to cover losses. This is why, for example, the Small Business Administration's $30 billion loan guarantee program costs taxpayers absolutely nothing.

Guaranteeing innovative mortgage products would reduce housing costs and expand housing construction, especially among people of color. A government-guaranteed second mortgage with deferred interest payments could reduce a homeowner's monthly payment or assist in purchasing a home, for example.

Here's the upshot. The federal government's loan guarantee portfolio has experienced remarkably low costs over the years. Creative partnerships with state governments could keep these costs low. A large number of banks could become protected lenders, providing credit where it matters most – without increasing the burden on taxpayers.

There's no reason America can't afford loan guarantee programs to encourage clean energy production, promote affordable housing construction and address other pressing priorities. It's important to note that public purpose banks could actually provide higher returns to shareholders than many conventional commercial banks. Because the assets of public purpose banks would be guaranteed, at least in part, by the government, regulators could require them to hold less capital than other banks. This would allow them to make more loans safely.

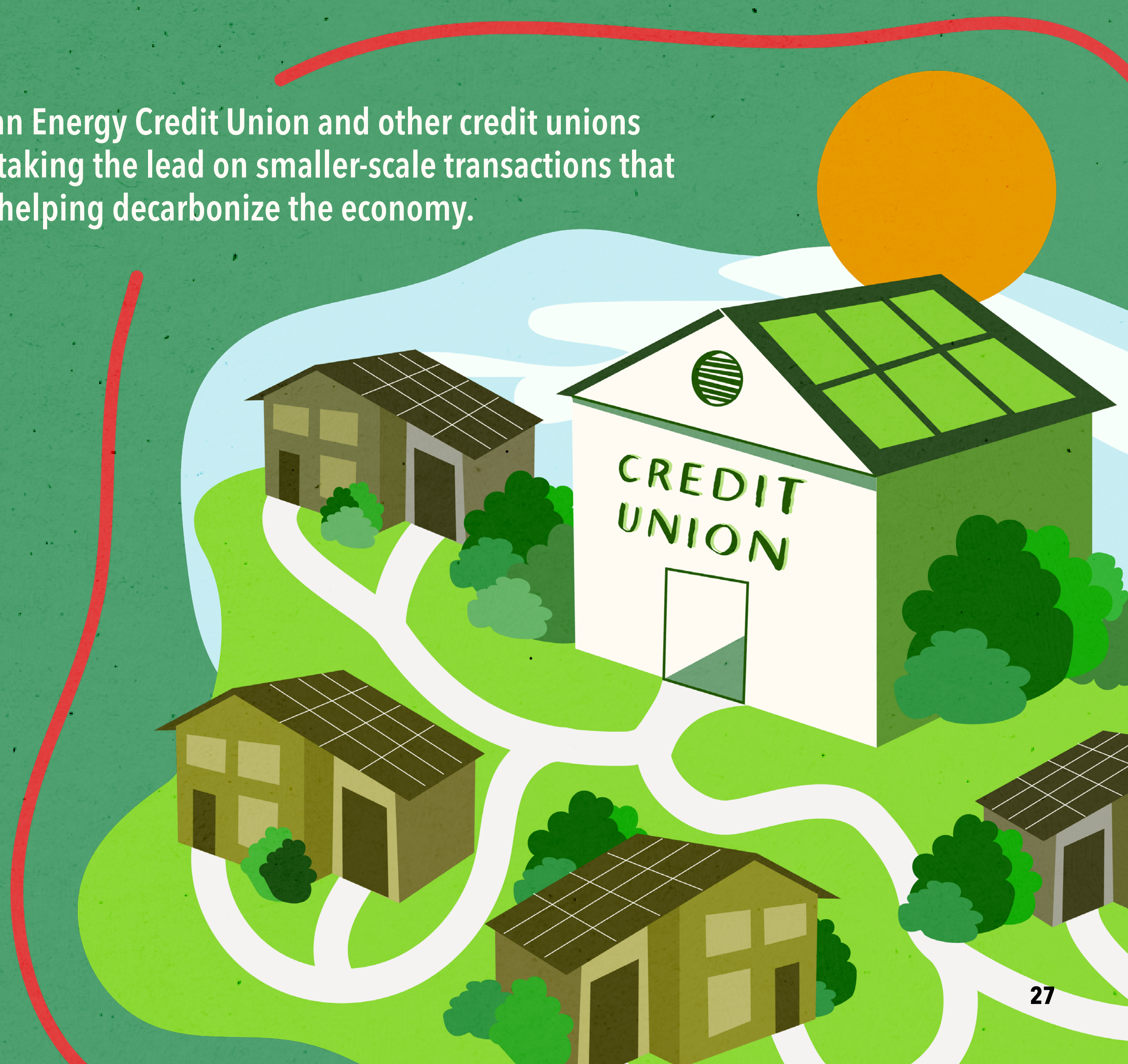
As recent events in California, Mississippi, Texas and elsewhere have shown, climate change will make weather-related catastrophes both more frequent and more destructive. Because of their financial strength, public banks would be in a position to serve as "financial first responders" when people are displaced by floods, hurricanes, fires and tornadoes. Without endangering their safety or profitability, a $10 or $15 billion public purpose bank could easily make thousands of small advances – perhaps as little as $1,000 to $2,000 – to people who need food, clothing or a place to stay until government help arrives. Let's say that just 1% of all U.S. banks, about 40, were to choose to become public purpose banks. Given that the typical bank has a $14 billion balance sheet, institutions with about $560 billion (that is, 40 banks multiplied by $14 billion) in assets would be transformed into lenders dedicated to making the American economy both more sustainable and more equitable.

Back in 2008, irresponsible mortgage lending brought the financial system to its knees. A couple of big investment banks went under, some investors took heavy losses, a few senior managers lost their jobs. But, thanks to the government's action, the banking system survived and, except for the few unfortunate casualties, emerged largely unscathed – and basically unchanged. The heaviest costs of the meltdown were borne by ordinary people who lost their homes, jobs and life savings.

It's clear this change in regulatory policy can provide significant improvements to the financial system. By tying unlimited deposit insurance to institutions offering public purpose investments that improve our economy and communities, we can build our financial stability and public investments, at no additional cost to taxpayers.

Credit Unions Are Taking The Lead To Un-Redline The Green New Deal

Clean Energy Credit Union and other credit unions are taking the lead on smaller-scale transactions that are helping decarbonize the economy.



Terri Mickelsen and about 7,500 of her friends aren't waiting to jump into the green revolution. They're members of Clean Energy Credit Union, where Mickelsen is CEO. Since 2017, they've invested around $200 million in clean energy or other green loans for member households across the country, offsetting an estimated 700,000 tons of annual carbon dioxide emissions so far – equivalent to taking 152,000 gas-powered vehicles off the road permanently. Every month, they make another $6 million to 8 million in green loans.

"I am kind of a credit union nerd who got together with some clean energy nerds as we were chartering a new credit union," said Mickelsen, whose 25 years of experience in credit union operations began as a teller. "It's a different type of credit union where it's not based on a job that you have or where you live, it's based on values."

And there's more. Around 300 credit unions across the country already have some kind of green loan product available, according to Inclusiv, a trade organization for credit unions that has a community development mission. That includes Cooperativa Jesus Obrero, a credit union that has financed 600 solar panel installations across 28 municipalities in Puerto Rico since it started doing so in the aftermath of Hurricane Maria.

In a survey of just 30 credit unions, Inclusiv tallied up more than $1 billion in green loans already on their books. The loans were used to purchase a range of green products: solar panels, electric vehicles, improved insulation, weatherproofing, air-source heat pumps, geothermal heat pumps, electric bicycles and more.

As impressive as that number may sound, it's still hardly a drop in the ocean of investment needed to address climate change over the coming decades. But under the banner of its Greenhouse Gas Reduction Fund, the Biden-Harris Administration opened three grant competitions totaling $27 billion in potential funds that are meant to dramatically scale up the volume of green lending done by credit unions or community banks.

These institutions are already taking the lead on smaller-scale transactions that are just as necessary for decarbonizing the economy as larger projects around energy production and distribution networks.

"Where credit unions really come in is filling that niche for solar. It's the consumer that needs a $20,000 [green loan], and then for small businesses, [green loans] between $50,000 and $200,000 that the banks don't want to touch either," Mickelsen said. "If it's not a million dollar deal, it's really sometimes not even worth it for a bank."

While there are still plenty of details to be worked out when it comes to implementing the Greenhouse Gas Reduction Fund, the basic idea is to take a page out of the New Deal playbook. Back in its time, the New Deal policies made it possible for smaller, community-based lenders to play the lead role in financing the construction of millions of homes for first-time homeowners.

When New Deal-era policymakers decided they wanted to encourage and allow millions of families to acquire millions of suburban homes using 30-year fixed-rate mortgages, they concocted a scheme that worked through community banks and credit unions. First, the lenders made loans to developers to build the homes; then, they provided households with 30-year mortgages to buy the homes. These 30-year mortgages were backed by federal mortgage insurance from the Federal Housing Administration and could be sold to Fannie Mae after origination. Selling the loans to Fannie Mae freed up each lender to do many more loans than it would if it had to wait for the loans to be repaid.

It worked on a scale nobody had ever seen before. From 1934 to 1962, community banks and credit unions made $120 billion in FHA-insured home mortgages that they usually sold to Fannie Mae. Unfortunately, New Deal Era policymakers also baked in redlining into the FHA and Fannie Mae underwriting guidelines for community lenders, so more than 98% of those dollars went to white homebuyers to purchase homes in white-only suburban communities. Looking back today, it was also clearly not the greatest idea to focus all that lending to build up single-family, suburban-style, car-centric communities.

In a survey of just 30 credit unions, Inclusiv tallied up more than $1 billion in green loans already on their books... As impressive as that number may sound, it's still hardly a drop in the ocean of investment needed to address climate change over the coming decades. But under the banner of its Greenhouse Gas Reduction Fund, the Biden-Harris Administration opened three grant competitions totaling $27 billion in potential funds that are meant to dramatically scale up the volume of green lending done by credit unions or community banks.

Despite some poor choices in implementation, history still shows that, with the right kind of support at the federal policy level, little banks have a track record of collectively doing big things. Hopefully, there won't be any redlining this time around. On paper at least, the Greenhouse Gas Reduction Fund is shaping up to avoid those mistakes of the past. Inclusiv is also one of 19 organizations in the Community Builders of Color Coalition, which was formed specifically to ensure the Greenhouse Gas Reduction Fund meets that promise.

"It's a well-thought-out structure," said Cathie Mahon, CEO at Inclusiv, whose member credit unions focus on historically redlined or neglected rural and indigenous communities. "It's up to us at the field level to figure out how to operationalize all of it."

The Greenhouse Gas Reduction Fund has rolled out three grant competitions. First, the $6 billion Clean Communities Investment Accelerator intends to provide funds exclusively for training and technical assistance to community development financial institutions, credit unions, green banks, housing finance agencies, and minority depository institutions to learn how to finance clean technology projects in low-income and disadvantaged communities.

Second, the $14 billion National Clean Investment Fund will provide grants to two to three "national clean financing institutions," enabling new partnerships with private lenders to support more green investments across the country. At least 40% of these funds must be dedicated to support investments in "low-income and disadvantaged communities, including those that are rural communities, Tribal communities, communities with environmental justice concerns, energy communities, and persistent poverty counties."

> **For energy efficiency or clean energy loans to low- and moderate-income households or fixed-income households, when push comes to shove, the loan repayment has got to be low enough that it's either offset by the energy bill reduction or increasing the value of the home to make it worthwhile for a household to invest in. So those loans end up being a little more customized."**
>
> -Cathie Mahon, CEO of Inclusiv

Third is the $7 billion Solar for All program, offering up to 60 grants to states, territories, Tribal governments, municipalities and eligible nonprofits "to create and expand low-income solar programs that provide financial and technical assistance, such as workforce development, to enable low-income and disadvantaged communities to deploy and benefit from residential solar." It's this pot of money that has many more municipalities and states looking into starting "green banks," which are public or quasi-public wholesale financial institutions that partner with private lenders to make green loans more accessible and more affordable. There are now more than 20 green banks across the country since Connecticut Green Bank became the first back in 2011.

One of the most crucial pieces that needs to come out of all the above, most likely as part of the $14 billion National Clean Investment Fund, is some kind of secondary market vehicle — a "Fannie Mae" for green lending that can buy green loans from lenders and free them up to make more.

Fannie Mae and Freddie Mac, which Congress created in 1970 also to purchase residential mortgages from private lenders, both already have existing green loan purchasing programs. From 2012-2022, green loans purchased by Fannie Mae have financed a million housing units retrofitted or green building-certified, offsetting 749,000 tons of carbon dioxide emissions.

But many lenders like Clean Energy Credit Union and others in Inclusiv's network are finding plenty of worthwhile loans that don't conform to the standards for selling loans to Fannie Mae or Freddie Mac. The underlying borrower profiles are considered too risky or just outside the "credit box." So the green loans these lenders are making aren't eligible for Fannie Mae or Freddie Mac to purchase, meaning lenders may have to slow down approvals or lose potential borrowers to online lenders who typically charge higher rates and fees than credit unions.

"Many credit unions already work with Fannie Mae but conforming loans are just not going to work with low-income, BIPOC and other historically disinvested communities," Mahon said.

"For energy efficiency or clean energy loans to low- and moderate-income households or fixed-income households, when push comes to shove, the loan repayment has got to be low enough that it's either offset by the energy bill reduction or increasing the value of the home to make it worthwhile for a household to invest in," Mahon said. "So those loans end up being a little more customized."

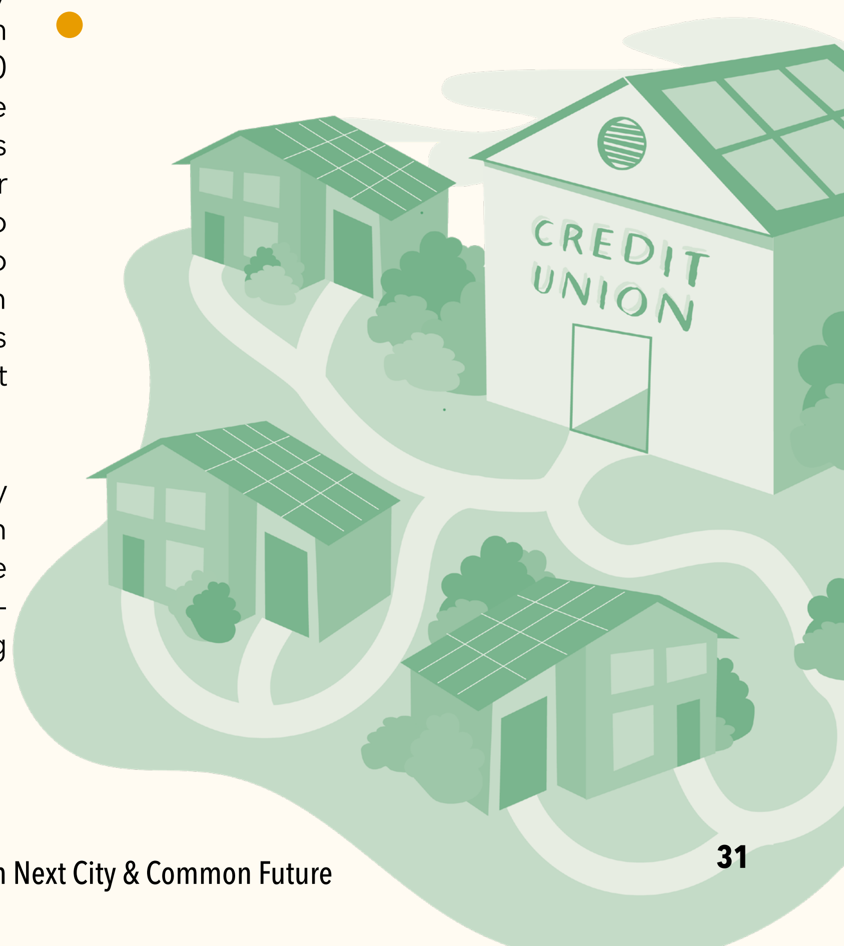
Despite the extra work or the perceived (but not necessarily actual) risk of working with such borrowers, whenever credit unions in Inclusiv's network start new green lending programs, they tend to reach their limits pretty quickly, Mahon said.

Clean Energy Credit Union has been getting by selling partial loans, also known as selling loan participations, to other like-minded credit unions across the country. It's essentially using a network of local credit union partners as a secondary market for some of its loans. That's how Clean Energy Credit Union has made around $200 million in loans despite only having a balance sheet of just $57 million. Selling participations has the added benefit of helping the other credit unions learn more about what it takes to do green lending successfully — such as how to vet contractors, vet technology, and deal with unforeseen hiccups like discovering a roof needs a full replacement before it can hold the weight of a new solar panel installation.

As another stopgap measure, Inclusiv recently launched its own green loan participation program, effectively serving as a makeshift Fannie Mae, only limited by Inclusiv's own ability to fundraise for that work. The trade group is planning to submit an application to the National Clean Investment Fund to scale up what it's already doing. At a certain point of scale, it might provide enough of a positive track record to get Fannie Mae or Freddie Mac to expand their programs and start purchasing the loans that lenders like Clean Energy Credit Union are already making.

"Stepping in with a loan participation platform for now can help kickstart new platforms while also allowing those that have started to keep growing," Mahon said. "We have an eye that the participation work we want to do is a means to an end to influence some other secondary market vehicle, whether it's Fannie or Freddie to expand their offerings, or some other private market vehicle."

"We dove headlong into it largely on the basis of pioneers like Clean Energy Credit Union and Cooperativa Jesus Obrero," Mahon said. "When we first started talking about this in 2018-2019, green lending was still a boutique product, and that's really not the case anymore."



The Seeds Of Economic Recovery Are Already Sprouting Roots In The Bronx

A tiny credit union in the South Bronx is punching above its weight as an active small business lender, even as banks nationwide brace for a credit crunch. Here's how.

It's not common for bank CEOs to walk around a neighborhood in the South Bronx, knocking on doors of local businesses to say hello and start getting to know them and their owners or employees. But what if it was?

That's what Rachel Macarthy is looking forward to doing later this spring and over the summer. Born and raised in the South Bronx, with a business degree in finance from Howard University, she's the CEO of New Covenant Dominion Credit Union. At 1185 Boston Road, the Black and Hispanic-serving credit union sits at a busy crossroads in the heart of the borough.

As a credit union, it's not just any bank, but a financial cooperative owned and governed by its members.

With just $2.5 million in assets, New Covenant Dominion Credit Union is tiny, even by credit union standards. But it's already punching far above its weight in one very important, very timely way: New Covenant Dominion Credit Union has recently become an active small business lender, unusual for a credit union of its size.

It's made just a dozen small business loans over the past year or so, but those loans now account for about a third of its loan portfolio. On average, credit unions under $10 million in assets have less than 0.25% of their portfolio in small business loans.

By knocking on those doors and getting to know more business owners and employees in the neighborhood, the credit union hopes to continue growing its small business portfolio. It's taken a lot of extra fundraising and other work to set up the credit union for this new growth phase, but as I've previously covered, it's been something this credit union has been working toward since long before the pandemic.

"We've always been a credit union that has wanted to get into small business," Macarthy said. "Everything's challenging because everything about small business lending is new to us, so everything is a learning experience. But it's exciting."

Meanwhile, much of the rest of the country is bracing for an anticipated credit crunch – a result of higher interest rates, deposits being pulled from large or regional banks in the aftermath the bank failures in early 2023, a possible recession, and a possible unprecedented default on U.S. government debt. The percentage of bank loan officers tightening lending standards for small businesses is up to levels that, historically, often indicate a recession is either coming or is already here.

This Bronx credit union is one example of something that might be different about this potential recession or credit crunch, versus any that have come before.

New Covenant Dominion is one of hundreds of credit unions, community banks, loan funds and venture capital funds with federal certification as community development financial institutions, or CDFIs – meaning they have a primary mission of serving historically disinvested communities. And as part of federal pandemic response packages, hundreds of CDFIs including New Covenant Dominion have recently received a significant influx of growth capital.

The new influx is significantly larger than in the last economic downturn. The CDFI Fund, which certifies CDFIs and doles out subsidies to certified institutions, saw its budget appropriation jump from $109 million in 2009 to $247 million in 2010. Subsequently, during the Great Recession, CDFIs increased their small business lending as they were flooded with requests from small businesses in distress. A 2012 analysis funded by the U.S. Treasury found that CDFI-certified credit unions grew their loan portfolios by 47% from 2005 to 2010, compared with 29% growth for non-CDFI credit unions; meanwhile, CDFI loan funds grew their loan portfolios by 76%, and CDFI banks also grew faster than non-CDFI banks.

> **"We've always been a credit union that has wanted to get into small business. Everything's challenging because everything about small business lending is new to us, so everything is a learning experience. But it's exciting."**
>
> -Rachel Macarthy, CEO of New Covenant Dominion Credit Union

This time around? Not only has the CDFI Fund's primary budget allocation continued to increase, up to $270 million in the FY2021 federal budget - but even more significantly, the post-COVID-19 response packages from Congress included more than $12 billion in growth capital for CDFIs. That includes the $9 billion Emergency Capital Investment Program (ECIP), the $1.75 billion Rapid Response Program (RRP), and the $1.75 billion Equitable Recovery Program (ERP). More than 700 CDFIs received funding through at least one of these three programs.

New Covenant Dominion Credit Union is one of 53 CDFIs that received funds from all three – 27 of which were CDFI-certified credit unions (loan funds were not eligible for ECIP).

On top of all that, there's also the renewed $10 billion State Small Business Credit Initiative, which contains incentives for those dollars to flow through CDFIs. New Covenant Dominion Credit Union is also accessing New York State's slice of SSBCI funding to support its nascent but quickly growing small business loan program.

Roughly speaking, based on the post-COVID-19 CDFI support that New Covenant Dominion Credit Union has received so far, it could triple in size tomorrow – tripling its portfolio in personal loans, car loans and small business loans – and still be in compliance with the capital requirements that credit unions have from the National Credit Union Administration. That's the independent federal agency that regulates credit unions and insures their deposits up to $250,000 per depositor, per credit union.

Of course, growth won't happen that quickly. New Covenant Dominion has only two full-time and one part-time employee (plus a volunteer through its church sponsor), though Macarthy anticipates hiring staff to help with outreach and financial counseling over the next few months. Despite the promise of online lending or financial technology-driven lending, small business lending is still largely based on relationships and trust.

In the Federal Reserve System's 2022 Small Business Credit Survey, among firms with employees, 81% reported being satisfied with their small bank lender, compared with 68% for large banks and 48% for online lenders. Small banks at least partially approved 82% of small business loan applications they received, compared with 71% for online lenders and 68% for large banks. The survey also found large disparities based on race and ethnicity – white small business owners saw 58% of their small business loan applications fully approved, compared with just 38% for Hispanic, 33% for Asian, and 20% for Black small business owners.

But small lenders aren't equally accessible to all communities based on race. Just 122 of 4,258 community banks are designated as minority-depository institutions by the FDIC. Among the 4,737 active credit unions, just 503 are currently self-designated as minority-depository institutions, according to the NCUA – and more than 70% of them are under $50 million in assets, meaning they don't collectively do very much in the way of small business lending.

New Covenant Dominion's story shows it's possible for smaller credit unions to get into small business lending, but only with a lot of extra fundraising and other work. New Covenant Dominion got its credit union charter back in 2007, after at least seven years of organizing efforts to get it by New Covenant Christian Ministries, the credit union's faith-based sponsor. The church also runs a community development corporation and a school.

The work for New Covenant Dominion Credit Union to expand into small business lending really started in 2014.

Macarthy, who also attended the church's school through high school, was just a board member at the time. That was the year that the credit union, on advice from consultants, expanded its "field of membership" – the potential pool of people who are eligible to become a member of the credit union. What started as an "associational" credit union, in which only members of New Covenant Christian Ministries could join the credit union, expanded into a "multiple common bond" credit union in which local organizations or businesses could join the credit union's field of membership and therefore make the business owner or its employees eligible to join the credit union.

After securing a change in its field of membership status, New Covenant Dominion Credit Union started applying for grants or low-interest loans to start scaling it up. First came a grant from the NCUA itself, which offers grants and loans specifically for credit unions serving low-income communities, such as the South Bronx. New Covenant got one in 2016, then another in 2017 and again in 2018.

Those grants helped get the credit union resources to gain CDFI certification in 2017 and start applying for CDFI Fund grants, which is an onerous application process that takes months and often requires help from consultants or other outside groups. New Covenant Dominion Credit Union got its first grant from the CDFI Fund in 2020, and got another grant in 2022 – that's in addition to the three COVID-19 recovery awards. New Covenant Dominion has also received assistance from Inclusiv, a trade association for credit unions with a community development mission. The trade association has provided some funding and assistance with applications to the CDFI Fund.

The grants that New Covenant Dominion has received have helped pay for new branding, and an expansion of the branch. It used to take up less than half the square footage it currently occupies in New Covenant's headquarters, and it didn't have separate branding from the church. Now it does, with a new bright gold and teal awning and its own tagline: "Banking to Believe in."

Since the branch expansion and rebranding, Macarthy said they get a handful of new members every week just from walk-ins.

They've also invested in new back-end infrastructure, a big expense for every credit union, especially with the threat of cyber-criminal fraud. But even more importantly for New Covenant Dominion, the credit union established a relationship with CUBG, an organization that helps credit unions across the country to evaluate commercial loan applications. It's a credit union service organization, meaning it's an entity specifically established and owned by one or more credit unions in order to provide a specific service to the credit union industry.

The NCUA's registry lists over 1,000 active credit union service organizations across the country, helping credit unions with everything from commercial lending and commercial real estate to home mortgage underwriting and other more sophisticated tasks that can be challenging for credit unions to handle because they might be very small or because their board members are all volunteers and may see value in having insight from an outside pair of eyes on a small business loan application.

CUBG doesn't provide a final decision on any loans, Macarthy said, but it offers helpful guidance to her and the board, and makes a recommendation on approval or denial that the credit union doesn't have to follow.

"It's been helpful vetting small business loan applications," Macarthy said. "But we anticipate some instances where there's some deeper relationship, a long-standing member where we see their deposit history and even though it might violate the standard policies that CUBG recommended for us, or it didn't meet some guidelines, we know our customer and we believe that it'll work out."

Regardless of whether they follow CUBG's recommendation, there is a fee associated with evaluating each small business loan application. Eventually, Macarthy anticipates having a large enough loan portfolio that the interest income from those loans will cover the CUBG fees and staff salary time devoted to those loans; for now, those expenses are mostly coming out of the COVID-19 recovery awards that New Covenant Dominion has received.

One of the benefits of being a credit union is that, as members open up business deposit accounts at the credit union and those businesses begin to develop, growth in those deposit accounts help enable the credit union to expand its loan portfolio in other ways: car loans, personal loans for refinancing high-interest debt, and more. Already, about 40% of New Covenant Dominion's deposits are from business deposit accounts.

New Covenant Dominion hasn't seen a huge outflow of deposits, despite the turmoil in the banking industry from the recent failures of Silicon Valley Bank, Signature Bank and First Republic Bank. Overall, small banks – defined as those with less than $5 billion in assets – have not seen the same large deposit outflows as their larger counterparts, according to a recent analysis by researchers at the New York Fed.

Still, as much as the new influx of growth capital has paved the way for New Covenant Dominion to grow over the next few years, one institution by itself isn't enough to completely counter the overall impact of a looming nationwide credit crunch or recession on the Bronx, a borough of 1.5 million people. Even if New Covenant Dominion tripled in size, it would still be less than $10 million in assets.

Three institutions probably isn't enough either – Spring Bank and Ponce Bank, the only two community banks in the Bronx, also each received funding from all three post-COVID-19 recovery programs for CDFIs. New Covenant Dominion is one of only four active credit unions based in Bronx. While there are other financial institutions based outside the Bronx that are doing business in the borough, the importance of locally-based financial institutions rooted in local social networks is, while difficult to quantify, also difficult to overstate.

"It's been helpful vetting small business loan applications," Macarthy said. "But we anticipate some instances where there's some deeper relationship, a long-standing member where we see their deposit history and even though it might violate the standard policies that CUBG recommended for us, or it didn't meet some guidelines, we know our customer and we believe that it'll work out."

-Rachel Macarthy, CEO of New Covenant Dominion Credit Union

Macarthy has been finding the credit union's first small business borrowers through its existing members and other networks via word of mouth. One long-standing credit union member came in one day last year looking for a personal loan. He'd paid off a previous loan and had benefited from a program to skip a payment on that loan during the pandemic. But Macarthy also knew he had a DJ business, and in conversation with him about this new loan she found out that he was looking for funding to buy some new DJ equipment. He wasn't aware that the credit union had recently established a new small business lending program, so she let him know if he applied for a small business loan instead of a personal loan, he could qualify for a larger amount based on his business plan and prior track record with the credit union.

"He didn't even have an LLC yet," Macarthy said. "But I knew what he does, so I helped him through that process to get him all of what he really needed for his business."

The question of why so few financial institutions are based in the Bronx is a question for another story. For now, at least, Macarthy hopes to have a big small business lending year in a neighborhood where her counterparts at large banks are almost certain to pull back hardest and fastest – not that they have been a huge lending presence to begin with.

"We've got another one pending right now, for a personal health products business," Macarthy said. "She got a personal loan from us last year, that's where we started her to build some history and now she's moving up. Where people can see you, there's power in trust."

4 Banks That Established Unusual Structures To Protect Themselves

The banking system that we have today in the U.S. was designed to leave some behind. But policymakers have options to try and design banks and banking differently. The financial institutions below provide models for how credit unions and banks can establish different ways of doing business.

Original Articles:

A Community Development Credit Union That Grows Every Time There is a Disaster

The Weirdest Bank You've Never Heard Of

A Bank for Virginia Lovers

Banks With No Shareholders? The Curious Case Of Mutual Banks

1. Hope Credit Union

HQ Location: Jackson, Mississippi

Date Founded: 1995

How It's Structured: Hope's hybrid model — made up of a credit union and a nonprofit loan fund, with a policy research arm, all working hand-in-hand — was born not entirely by design, but rather from experience. The loan fund and credit union were founded as separate organizations at first. The founders were looking to figure out how they could use finance to support communities facing structural barriers compounded over generations of slavery, Jim Crow, redlining, and continued discrimination.

2. National Cooperative Bank

Location: Arlington, Virginia

Date Founded: 1978

How It's Structured: This financial institution is a bank, not a credit union, because its members are exclusively co-ops themselves, not individuals. The bank itself is also a cooperative, owned and controlled by its customers. It's one of a few banks that doesn't have the traditional ownership structure of wealthy investors at the top, reaping the lion's share of profits at the expense of borrowers and depositors.

3. Locus Impact (formerly Virginia Community Capital)

HQ Location: Richmond, Virginia

Date Founded: 2006

How It's Structured: The bank's entire line of business is focused on its mission to serve underserved or disinvested communities. In just 2019, the bank made 124 loans, totaling $103 million across the state of Virginia to affordable housing or other community development projects as well as small businesses. Seventy-percent of the bank's lending goes to urban areas.

4. Ponce Bank

HQ Location: The Bronx

Date Founded: 1960

How It's Structured: Ponce was originally chartered as a mutual bank, which is a structure with no traditional shareholders, similar to a credit union. It allowed them to set a break-even goal in lieu of ever-increasing profits. "It's perfectly natural and logical that a community bank might decide that for the sake of its community is going to price its loan products below market, and therefore eliminate any net income," Doug Faucette, co-founder of America's Mutual Banks, told Next City in 2022. "The examiner would come in and rate you a failure on earnings if you did, they might even rate you a failure on management if you did that. But that is completely contrary to the law and the foundation of a mutual bank."

At Long Last, North Minneapolis' Black Residents May Soon Have A Credit Union Of Their Own

The travails of Arise Community Credit Union, set to be Minnesota's first Black-led credit union, raise the question: How hard should it be for communities to have their own financial institutions?

The ancestors came calling for Daniel Johnson, CEO-designate for Arise Community Credit Union – nearing six years in formation but inching toward its goal of becoming Minnesota's first Black-led credit union. It would also become the state's first new credit union of any kind in more than a decade.

Johnson was 11 or 12 when he first moved from East St. Louis, his birthplace and home to one grandfather, to the Northside of Minneapolis – home to his other grandfather. He took after both of them as entrepreneurs, starting young.

"I cut grass, I shoveled walks, I had so many hustles to make money, and people actually had the resources to pay," Johnson said. "I thought this was the land of milk and honey. Of course, it had its challenges…any side of town, when larger resources are geared away from it, then things do kind of fall apart."

The more Johnson grew, personally and professionally, the more it seemed his beloved Northside was falling into disinvestment. His first real job was at the McDonald's that used to be at Penn and Plymouth Avenues. His next job was down the street at King's Supermarket. After taking an apprenticeship at a funeral home, he even dreamed of becoming a mortician. Then came retail jobs at a prominent downtown department store, and eventually back on the Northside at a branch of one of the big four banks.

"I opened up half of North Minneapolis' checking accounts and teenage accounts for the people who are adults now," Johnson said. Eventually, he'd move into selling insurance at an affiliate of the bank.

It was one of his former banking clients who came to Johnson in 2021 and suggested that he throw his hat into the ring for CEO at Arise Community Credit Union. Johnson wasn't sure at first. He'd been moving up, doing well financially and professionally selling insurance. So he called his mother, a trailblazing Black woman who spent 30 years as an executive at AT&T. He asked if she was proud of him, which she was; to that, he replied, okay, maybe he'd stick it out on his current path.

"There was crickets on the line," Johnson said. "I'm like, Mom, are you still there? She said, 'Well, you know, your grandfather sold ice and coal on the back of a horse-driven buggy, and your other grandfather moved furniture for people in the hopes that one day that one of their descendants may go through the process and become a CEO of a financial institution. But no pressure.'"

Johnson sent in his resume as soon as he hung up the phone. After a year-long selection process, Arise Community Credit Union's organizers named him as CEO-designate in October 2022 and submitted their application jointly to state and federal credit union regulators. With its final approval still pending, Arise Community Credit Union's founding organizers are about halfway toward raising the $3 million in startup capital that regulators set as a target for Arise, based on the credit union's initial three-year projections.

"This is what the community asked for after George Floyd's killing, after Philando Castille's killing and so many others [at the hands of police]," Johnson said. "The community said, 'We don't want another park. We don't want another place just to throw flowers. We want something more tangible, something that we can have as an institution that will be around long after we're gone.'"

“This is what the community asked for after George Floyd’s killing, after Philando Castille’s killing and so many others [at the hands of police]. The community said, ‘We don’t want another park. We don’t want another place just to throw flowers. We want something more tangible, something that we can have as an institution that will be around long after we’re gone.’”

-Daniel Johnson, CEO-designate of Arise Community Credit Union

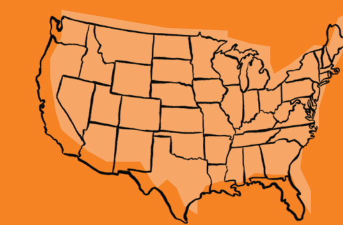
A healthier lending ecosystem

Arise Community Credit Union’s formation has had its setbacks since the effort to launch it came together in the wake of Castille’s 2016 death. But right now, conditions for a new non-predatory lender in Minnesota are better than they have been in a very long time. New restrictions on payday lenders could potentially be clearing out much of Arise’s existing competition.

After years of advocacy, last month Minnesota Governor Tim Walz signed a bill establishing an interest rate cap on loans in the state. While advocates had been calling for a 36% rate cap, the final bill as signed into law sets an overall cap of 50% while requiring lenders to evaluate a borrower’s ability to repay for loans between 36-50%.

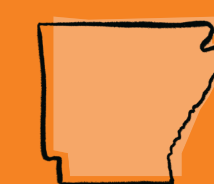
Currently, 18 states plus the District of Columbia have established lending rate caps of 36% or below, according to the Center for Responsible Lending. The caps have proven their effectiveness. Nebraska voters passed a 2020 ballot measure to establish a 36% rate cap in their state, and since then payday lenders have disappeared across Nebraska, the Omaha World-Herald reported in May of 2023. In Arkansas, where the last payday loan storefront in that state closed in 2009, retail borrowers since say they’re better off and have been finding their way to safer, non-predatory options – including new options like People Trust Community Federal Credit Union, a Black-led credit union chartered last year and that state’s first new credit union since 1996.

Recent Progess



Currently, 18 states plus the District of Columbia have established lending rate caps of 36% or below

Nebraska voters passed a 2020 ballot measure to establish a 36% rate cap in their state



In Arkansas, where the last payday loan storefront closed in 2009, retail borrowers since say they’re better off and have been finding their way to safer, non-predatory options

Arise’s existing predatory competitors have definitely established that there is a market need that a new credit union can help meet. In 2021, 39 licensed payday lending entities in Minnesota made 176,241 payday loans to 20,004 Minnesotans, according to the Minnesota Department of Commerce. The average borrower took out nine payday loans, at an average loan amount of $365, and was charged an average of 197% interest per loan. And there’s a growing pile of evidence that payday lenders tend to place their storefronts in Black neighborhoods like those on the Northside of Minneapolis. As those lenders retreat, Arise can be there to start picking up the pieces.

And it will be easier than five or 10 years ago to operate and scale up a small dollar loan program. Though it’s still a source of some sticker shock for lenders, the back-end technology for banks or credit unions to process and manage a small-dollar consumer lending operation is becoming more reliable, efficient and accessible. As a result, credit unions nationwide issued $227 million in payday alternative loans in 2022, topping the previous record of $174 million (set in 2019), according to a Pew analysis of data submitted to the National Credit Union Administration.

On top of that, just over the past five years, six of the eight largest banks have launched small dollar loan products, driven in part by the availability of new technology to manage a high volume of small transactions – and also in part by the Consumer Financial Protection Bureau and other regulators pushing federally-insured, publicly-chartered institutions to do so.

An institution of their own

With big banks entering the small dollar loan space, it might seem like there’s no need for Arise Community Credit Union. But in surveys, town halls and even just informal conversations over the years, the Northside’s desire for its own institution has only gotten stronger, said Debra Hurston, executive director at the Association for Black Economic Power (ABEP), a nonprofit formed in 2016 specifically to launch a Black-led credit union based on the Northside.

"The mistrust in the banking community, it's not a small thing, and it can't be fixed overnight," Hurston said. "We're starting from the wrong spot…if I have to protest in front of you to make you treat me right. Something's not right about that. So no one from our communities has ever asked me if we should just partner with a larger bank."

Hurston joined ABEP in 2020 after the organization parted ways with its previous leadership due to what she characterizes today as "management missteps." At one point, an idea arose to partner with one of the more established credit unions in the Twin Cities to expand access to their products and services on the Northside.

"I took that concept to the community, and they said no, they did not want to partner," Hurston said. "They appreciated the idea. They understood that that would be a much shorter path to getting this done. They did not want us to go that route."

But chartering a new credit union today is like traversing a long lost trail through the woods, one that used to be well-traveled but is now overgrown or littered with fallen trees or other obstacles no one has had to navigate previously. Prior to 1970, there were 500 to 600 new credit unions chartered across the country every year. After a steep decline to near zero, the numbers have never recovered. Over the past ten years, fewer than 30 new credit unions have been chartered across the country.

ABEP's route to chartering a new credit union has had both its frustrations as well as occasional breakthroughs. First came the loss of funding – a major early contribution from the City of Minneapolis had to be returned after the management transition led to missed deadlines. Local foundations quietly stepped away and have yet to return to the table.

> **"If I have to protest in front of you to make you treat me right. Something's not right about that. So no one from our communities has ever asked me if we should just partner with a larger bank."**
>
> -Daniel Johnson, CEO-designate of Arise Community Credit Union

Given her background in association leadership, Hurston knew she could at least reach out to trade associations – in this case the Minnesota Credit Union Network, and the African American Credit Union Coalition. Through these groups, Hurston said, ABEP has been able to find pro-bono advisors to assist with everything from drafting the joint application for a state credit union charter and federal deposit insurance, to choosing a "core processor" – that's the back-end technology for the credit union to process deposits, withdrawals, transfers, loans and other transactions. They've also helped with the CEO recruitment and selection process.

The Minnesota Credit Union Network even took an unprecedented step to launch a capital campaign for Arise Community Credit Union. The first of its kind the network has ever launched, the capital campaign so far has raised $1 million in donations from its members, covering part of Arise's $3 million in required startup capital. On top of that, the Minnesota Credit Union Network's campaign also raised $4 million in deposits pledged from existing credit unions, to be placed in new accounts at Arise after it opens for business.

"Credit unions have this philosophy of people helping people, and our industry's history is about serving the underserved and marginalized communities," said Andrea Molnau, executive director at the Minnesota Credit Union Foundation, the state credit union network's philanthropic arm. "Because of that we felt that it was part of our responsibility as the trade association and the foundation to kind of step into this role."

So far, nine Minnesota credit unions have made contributions for startup capital, and 20 have made deposit pledges. Those deposits from credit unions around the state will combine with $2 million and counting in deposit pledges for Arise coming from individuals or businesses in the Twin Cities. That will allow the credit union to start out with $6 million in assets, projecting to break even and have around $10 million in assets by its third year.

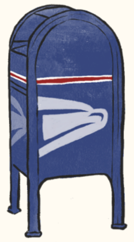
Molnau said the network is open to doing it again where there's a need, which might very well be in a state that recently established new restrictions on payday lenders. Minnesota's racial wealth gap is the third worst in the nation, meaning other communities of color who might want to start their own credit unions in the coming years still don't have equal access to the financial resources it takes to charter a new credit union in the 21st century. Nationwide, racial wealth gaps and the need for new credit unions to raise their own startup capital partly explain why out of 4,700 credit unions across the country, only 500 are self-designated minority credit unions, meaning a majority of their membership is made up of one or more racial or ethnic minority groups as reported to the National Credit Union Administration.

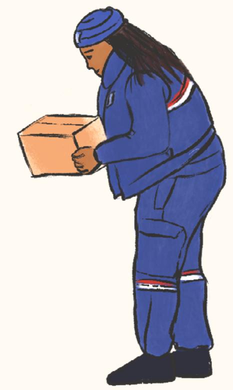
"One thing that we're working on right now is coming up with a playbook because the chartering process is quite complex, and really trying to take the learnings that that we've had working with Arise and trying to come up with a resource that's going to be helpful for additional groups going forward," Molnau said.

Should other communities of color go ahead and start more credit unions – or banks – of their own? Especially after 2023's regional bank failures have many experts predicting only continued consolidation in the banking industry?

If a community wants it, if it can prove there is a market for such services that no one else is meeting, and if it can marshall the necessary financial, professional, technological and other resources necessary to pass regulators' muster, then for now, any community has the right to try and answer the question for itself.

"I've been there in big box banking," said Arise's Johnson. "It's more about what part that person can play in the empire of the bank, as opposed to partnering with a credit union where we can shake hands and start seeing things grow and develop on both sides. It's important for people to be able to see that an institution has planted a flag that really represents them and isn't driven by stockholders."





5 Lessons For Starting New Financial Institutions That Serve Communities

The U.S. banking system from its very beginning was built to allow for local ownership and local power over credit. I'm far from the first journalist, historian or writer to say that, but it bears repeating again. In the wake of a deadly viral pandemic that wracked the globe over the past several years, the banking system is wrestling with another crisis largely of its own making. It's not as widespread or hard-hitting as the last financial crisis more than a decade ago, but this crisis is feeding into the narrative that we would all be better served by having fewer, somehow even larger banks.

Relatively speaking, there still is a lot of local ownership in the banking system. The U.S. has one of the most, if not the most decentralized banking sectors of any country. Even after a 70% decline in their numbers since the mid-1980s, there are still 4,700 banks and 4,800 credit unions across the country today. By comparison, the country whose population is closest to the U.S., Indonesia, has around 1,700 banks. The next closest, Pakistan, has fewer than 100 banks.

The scale of today's challenges – yawning and persistent racial wealth gaps, the ever-rising cost of housing and climate change – makes it easy to conclude only big banks have the necessary scale to meet the moment. But as much as big banks can and probably should do to help, history is proof that this country has never really done anything big without little banks. They haven't done big things on their own – community banks did big things in tandem with public policy instruments like the Federal Reserve, federal deposit insurance, Fannie Mae and even the institution of a single government-backed currency. It shouldn't be forgotten that scale cuts both ways – public policy also drove community banks to play a big role in segregating communities of color and disinvesting from those communities.

Opinions differ on whether more of the financial system should be locally owned and controlled. Perhaps every community should have the right to at least try. For communities that are interested in exploring the possibility of taking ownership over a piece of the financial system, here are some lessons and patterns to take away from the stories gathered in this anthology. Taking back the financial system for communities doesn't mean it has to look just as it did the first time around. We could do it without the racism and sexism this time, and there is ample reason to believe we can.

1 Don't be shy about having a mission

All of the relatively newer institutions in this anthology were chartered with a specific mission in mind. Whether it's providing credit access to communities that other institutions aren't reaching, as in the case of Adelphi Bank or People Trust Community Credit Union or Community First Fund Credit Union; or missions related to climate change as in the case of Clean Energy Credit Union or sustainable food in the case of Walden Mutual Bank. Other examples show the viability of established mission-driven banks like National Cooperative Bank with its mission to invest in cooperatives or Virginia Community Capital's community development mission. Regulators may have additional questions and concerns for applicants with a mission, but that didn't stop any of these institutions from opening their doors.

2 Think about ownership structure

Consider an unorthodox ownership structure to protect your bank's mission. A credit union is the most obvious as a member-owned, member-controlled cooperative, but it's not the only option. Walden Mutual is the first new mutual bank in 50 years. National Cooperative Bank isn't just a name or a mission, the bank itself is owned as a cooperative by its account holders. Virginia Community Capital's bank holding company is a nonprofit loan fund, as is City First Broadway's. A bank holding company is a controlling shareholder of a bank.

Among credit unions, People Trust and Community First Fund Credit Union are rare examples of having a nonprofit loan fund as a sponsor organization. Sponsor organizations are usually companies for company-based credit unions or churches for church-based credit unions. Having a nonprofit loan fund as a sponsor organization provides additional flexibility for raising money to start and grow a new credit union. Earlier examples show the power of such an arrangement, such as Hope Credit Union. Based in Jackson Mississippi, Hope is now a $500 million institution serving disinvested communities from the Delta to Memphis to New Orleans and also Birmingham, Alabama.

3 Startup capital can come multiple ways

As different as Walden Mutual Bank and Adelphi Bank are – different missions, different geographies, different projected growth rates – they both raised around the same amount in startup capital, about $25 million each. They also raised their startup capital from similar sources – investors willing to give up some financial return to create positive social returns for their communities.

The public sector can be a source of startup capital for banks. National Cooperative Bank started out with a seed investment from the federal government, which it repaid a few years before the original October 2020 deadline for repayment. Virginia Community Capital initially launched with seed capital from its state government and wasn't required to pay it back, but it was required to use that seed capital to establish a financially independent, FDIC-insured institution as a way to scale up its lending by adding deposits to its balance sheet.

Philanthropic gifts can also help start new banks or credit unions. Community First Fund used a portion of a surprise donation from billionaire MacKenzie Scott to help seed its new credit union. Over the years, Hope Credit Union has also grown through philanthropic dollars raised through its nonprofit loan fund sponsor organization, Hope Enterprise Corporation. It's one of the main benefits of a nonprofit loan fund sponsoring a credit union – foundations typically only give grants to 501(c)(3) entities, which do not include credit unions, but if the sponsor organization is a 501(c)(3) nonprofit loan fund, that's one way to channel philanthropic gifts as startup or growth capital to a credit union. People Trust Community Credit Union is also relying on this model as a credit union with an affiliated nonprofit loan fund sponsor.

4 Experience can come in multiple forms

Whether it's a bank or credit union application, regulators definitely consider prior experience in banking or lending as one of the most important factors. If the bank has a mission or community focus, regulators will want to see related experience on the applicant's prospective board or management. But there are other ways to get experience.

The simplest is to recruit people with experience onto the founding board or management team, if they aren't among the founders already. Adelphi Bank benefited from having a long-time banking industry veteran among its co-founders who also stepped up to serve as founding CEO. Walden Mutual's founder didn't have banking experience, but had extensive background and professional connections in sustainable food, and recruited experienced bank executives onto the founding management team. In Minneapolis, the aspiring Arise Community Credit Union's founders recruited their perfect candidate – someone raised in a historically-Black part of the city who happened to have decades of experience in banking.

It's also possible to gain the lending experience on your own first as a nonprofit loan fund and leverage that track record on your application. Community First Fund was founded as a nonprofit loan fund in the early 1990s, giving it three decades of lending and underwriting experience to put into its credit union application packet. People Trust's credit union application pointed to more than a decade of small-dollar personal lending experience as a loan fund, the most recent five years or so as a federally certified community development financial institution.

5 Get help from other local institutions nearby

While there aren't nearly as many community banks or credit unions around today as there were in the 1980s, those that are still around have at least some interest in supporting new institutions. Capacity to help varies, but it can only help to ask. Working with its state credit union association, the aspiring Arise Community Credit Union in Minneapolis raised just over $1 million in donations from nine credit unions across Minnesota. On top of that, 20 total Minnesota credit unions pledged to make a total of $4 million in deposits at the new credit union once it opens for business.

In a more established example, Virginia Community Capital's model is based primarily on raising deposits from institutions, including other community banks. All banks have obligations under the federal Community Reinvestment Act to meet credit needs in low-income communities. In Virginia, all banks can satisfy some of those obligations by making a deposit into Virginia Community Capital, since that bank has a mission of supporting affordable housing and community development. Today, 36% of Virginia Community Capital's deposits come from other banks.

Conclusion

It's not easy to start and run a bank, and nor should it be. Banks hold the power to create money, which they do whenever they make a loan. It's a power the public delegates to banks, and from the very beginning in the U.S., public policy helped distribute that power widely. That power distribution helped bring money creation closer to the ground, to the communities that needed to create money in order to build and run local economies.

That said, the banking system has never worked perfectly, yet it's always been on the path to improving. Over the decades there has been a lot of policy trial and error that intended to make the banking system more stable and reliable. The banking system also shut out people of color and women, but it was on the path toward inclusion. Through all that, the locally distributed power to create money remained a primary feature – until these past three decades that saw a sharp decline in local ownership.

Some argue it's too late to go back, that the big bank genie is out of the bottle and now the focus should be on regulating them more effectively to direct the money-creation power they have back toward the public purpose for which it was given. It's naive to think otherwise.

I'm just not convinced that you or I get to decide whether it's worth trying to take back the banking system for communities. I think it's a conversation each of us can have in our own communities. My hope is that this publication has provided vital information for those conversations and maybe even some inspiration from what other communities have been doing to take back a piece of the financial system for themselves.

NEXT CITY

COMMONFUTURE.