
Is capital haul too much of a good thing for Black-run banks?

By John Reosti

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An effort encouraging investors to buy stock in Black-run banks could create new challenges for the leaders of those companies.

The Buying Black movement, which took root last week, led to sharp increases in the shares of companies such as Broadway Financial in Los Angeles, Carver Bancorp in New York and M&F Bancorp in Durham, N.C.

An influx of new investors could increase pressure to improve shareholder returns, while any strategic effort designed to generate higher profits could also draw a backlash. At the same time, markets are fickle — most shares in Black-run banks have fallen significantly in recent days as some existing shareholders cashed out.

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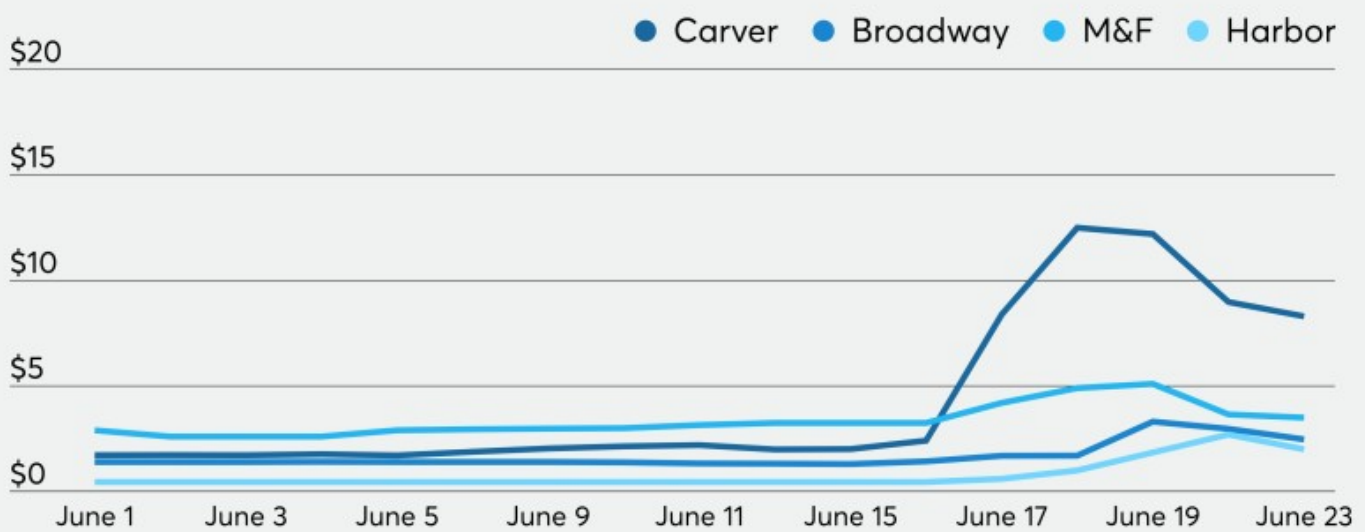


Indeed, Broadway's biggest investor — who had been pushing for the company's sale — abruptly sold all of its stock after the value of its holdings soared.

Leaders of Black-run banks contend that what they need more than capital is more partnerships with bigger banks to extend their reach to underserved customers.

Short-lived pop?

Stock prices for several Black-run banks have declined after spiking early last week



Source: Bloomberg

Broadway has faced all of those challenges since Capital Corps bought a nearly 10% stake from the Treasury Department in May 2019.

Capital Corps, a mortgage lender founded by former Banc of California CEO Steven Sugarman, briefly mounted a proxy challenge after [offering to buy](#) Broadway. Sugarman [claimed](#) that the \$504 million-asset company had strayed from its mission of lending to minority communities.

After facing stiff resistance from Broadway's management and board, Sugarman opted to sell the shares. Capital Corps liquidated its stock at roughly \$2.62 a share, or nearly double what it paid the Treasury.

The saga at Broadway serves to illustrate why minority-run banks are often reluctant to court new investors.

Black-run banks "like the status quo," said William Michael Cunningham, CEO of Creative Investment Research in Washington and a longtime proponent of Black-owned banks.

"They don't necessarily want a lot of attention, and they're super-conservative, in part because they don't have a sufficient asset base" to grow aggressively, Cunningham added. "They really have to guard every penny."

Instead, Black-run banks are eager to strike partnerships to access more customers, said Kenneth Kelly, CEO of First Independence Bank, a \$265 million-asset Black-owned bank in Detroit. The bank's \$102 million portfolio is split between commercial real estate and one- to four-family mortgages.

Establishing partnerships between African American banks and larger institutions has been a priority for the Treasury Department. It established a [mentor-protégé program](#) that has helped several Black-owned banks, including First Independence and the \$108 million-asset Unity National Bank in Houston, gain a share of fee income tied to processing financial transactions.

"We're open to partnerships with larger banks that could allow us to deliver" more retail products, Kelly said. "But that's not where our business model is right now."

Broadway, like First Independence, is limited by its lack of scale.

Balance sheet constraints, exacerbated by rising home prices around Los Angeles, have influenced Broadway's business model. The company focuses more on lending to multifamily developers than residential mortgages, said CEO Wayne-Kent Bradshaw.

More than three-fourths of Broadway's \$430 million loan portfolio was concentrated in multifamily lending at March 31, according to the Federal Deposit Insurance Corp. Mortgages made up less than 15% of total loans.

"Working poor people don't have the opportunity to buy houses," Bradshaw said in response to Sugarman's criticism.

Funding five- to 25-unit apartment buildings in minority communities "is damn near God's work," Bradshaw added. "We're very committed to the low- and middle-income community."

Previous efforts designed to help Black-owned banks have delivered fleeting benefits.

The 2016 Black Money Matters movement, led by the rapper Michael Render, led to an initial [uptick in deposits](#). The lift was short-lived; deposits at Black-owned banks have fallen steadily in recent years, according to FDIC data.

Total assets held by Black-owned banks have [fallen by nearly 30%](#) since peaking at \$6.8 billion in 2008.

Capital Corps said in a letter included with Tuesday's regulatory filing that it had offered to provide Broadway with "at least \$1 million in pro bono services and technical assistance" to help the bank make more mortgage, consumer and small-business loans.

While he did not address Sugarman's offer, Bradshaw said he "was very glad" Capital Corps cashed out. "They bought at a discount and sold for quite a premium."

Shares of Black-owned banks are typically thinly traded and subject to wild fluctuations. While they can shoot up quickly with an influx of investors, they can also plummet if shareholders like Capital Corps decide to sell.

Carver's stock, which rose sixfold last week to reach \$12.20 a share on Friday, is down 28% this week, ending Tuesday at \$8.78 a share. While M&F's shares increased by 57% last week, ending Friday at \$5.10, they closed at \$3.50 on Tuesday.

Broadway's stock got as high as \$7.23 a share on Friday. It ended Tuesday at \$2.56.

To be sure, some stocks have continued to rise, including IBW Financial, the parent of Industrial Bank in Washington, which is up 9.3% this week after rising by 35% a week earlier. Shares of Harbor Bankshares in Baltimore have quadrupled since June 12, closing at \$2 a share on Tuesday.

Lenders need reliable long-term investment, said Kelly, who chairs the National Bankers Association, the trade group representing African American banks.

"We really don't need episodic support as much as we need systemic support," Kelly said.

"I hope what we're seeing in the high level of interest is something that is sustainable and is systemic moving forward," he added. "We do serve a unique population, and it should be part of the American Dream."

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