

How Citi is helping a minority-owned bank get back on its feet

By [John Reosti](#)

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The new CEO of Houston's only black-owned bank is counting on a budding relationship with Citigroup to expand its product set and boost profits.

Laurie Vignaud joined Unity National Bank of Houston in January from Capital One, where she was senior vice president of community development banking. She took the helm two months after the [failure](#) of City National Bank of New Jersey in Newark cut the ranks of banks owned or operated by African Americans to 21 — about half of what existed before the financial crisis.

Vignaud said she is convinced that the 34-year-old Unity must embrace a new business model to survive.

"We have to think outside the box and we have to have relationships that are going to help us continue to offer services that are meaningful in our" low-and moderate-income communities, Vignaud said in a recent interview.

State of decline

Assets at banks owned or operated by African Americans have been falling



Source: FDIC

Unity is one of seven banks owned or operated by minorities enrolled in the Treasury Department's Financial Agent Mentor-Protégé program. The initiative pairs big banks that process financial transactions for the government with minority depository institutions. The smaller banks can earn fee income by taking on some of the workload.

A key objective is to keep the smaller banks viable, which in turn will help them continue to address the needs of underserved communities.

A handful of large banks, including Citi, [JPMorgan Chase](#) and U.S. Bancorp, are working with the minority-focused banks.

Many of the smaller banks, like Unity, are struggling with profitability. The \$106 million-asset bank hasn't reported a full-year profit since 2016, losing a total of \$2.9 million over the past three years, according to data compiled by the Federal Deposit Insurance Corp.

"Unless we look at how we leverage our relationships, position ourselves for growth and engage with the community, we too could be a nonexistent institution in a few years," Vignaud said.

Vignaud said she expects to lean heavily on the \$1.9 trillion-asset Citi for help building Unity's retail banking capabilities. Over time, she would like to use the Citi platform as a white-label conduit for mortgages, credit cards and other consumer products that Unity can't afford to offer on its own.

"We're looking at diversifying ... because there's so much more we can offer," she said. "We want to be more of a consumer lender."

Commercial real estate made up about two-thirds of Unity's \$82 million loan book on Dec. 31. The bank has just \$16 million in residential mortgages on its books, with no outstanding credit card or automobile balances.

Fee income made up less than a fifth of Unity's revenue last year.

"You see all these payday lenders and [automobile] title loan stores throughout the neighborhood," Vignaud said. "We want to make sure people know they don't have to go there. They can come to us to get car loans, consumer loans, personal loans."

Credit cards, merchant services for small businesses and, especially, home loans are all on her wish list.

"Mortgage lending is something that's really high on the list. We want to be able to provide that service to our customers, so I know that's one we're going to be looking really closely at," Vignaud said.

Under the Treasury program, financial agent banks handle a wide range of tasks, including processing tax returns and passport applications, disbursing benefits payments and collecting debts. Given the scope of the agency's activity, there's plenty of business — and money — to go around.

The Treasury expects to pay financial agent banks about \$850 million in fiscal 2020 and \$865 million the next fiscal year, so even a fraction of that revenue would make a big difference for Unity and other minority-owned banks.

While the program originated in the late 1990s, Treasury Secretary Steven Mnuchin has made its expansion one of his top priorities.

Speaking at a ceremony honoring the legacy of the Freedman's Bank, Mnuchin said Tuesday that he had "personally reached out" to the large banks in the program.

"We need more" participants, Mnuchin said. "We need to double the number of what we have."

Rep. Gregory Meeks, D-N.Y., [introduced a bill](#) in December that would, among other things, require large banks seeking to become financial agents to mentor a minority depository or community development financial institution. The American Bankers Association and the Independent Community Bankers of America have endorsed the bill, which passed the Financial Services Committee in a 52-0 vote and is waiting on House action.

As for Citi, it's emerged as one of the Treasury program's [most enthusiastic participants](#). In addition to its partnership with Unity, Citi is working with Industrial Bank in Washington, which recently became the first minority depository institution to receive a subcontract under the program. (Industrial also took over City National when it failed.)

"We definitely jumped in with both feet," said Harold Butler, Citi's senior banker for the Treasury and Federal Reserve Banks. The company is working with a four protégé banks, he added.

Vignaud said she was surprised by how willing Citi was to help her bank.

"It's not lip service," she said. "They're really doing the work to help us. The commitment from the senior leadership down has been astounding."

While the program's core component focuses on letting minority banks share in the government's transaction work, Citi has been willing to expand the boundaries with Unity by exploring white-label arrangements and offering advice and support on IT matters.

The initial goal "was to couple a large, money-services bank like Citi with a smaller bank, and for us to help them understand what it means and how to prepare themselves to be a financial agent bank," Butler said. "Subsequent to that, if there was an opportunity for us to help make them a better financial institution through things we do on our retail side or what have you, that's also part of the program that we've launched."

Vignaud said she wants Unity's relationship with Citi to be a "win-win" proposition. In exchange for the assistance, Unity is giving Citi access to a client base the megabank would have had difficulty reaching on its own.

"Often, I think, there's a perception that when you're working with a small minority bank, or you're trying to address CRA or any kind of community development, people see it as cost to doing business," Vignaud said, referring to the Community Reinvestment act.

"I would like to think community development and CRA is not a cost, it's a value-add," she added. "We want to demonstrate we can bring business from this community that's going to be profitable and a successful outcome, so Citi can win, as well."

In addition to Citi's support for its retail transformation, Vignaud said Unity is eager to win its share of transaction business, which she hopes will provide a source of critically needed fee income.

"With interest rates being so low, margins are so slim, many of us are struggling with diversifying how we are able to generate income," Vignaud said.

"We'd love to become a successful financial agent partnering with Citi and the Treasury," she added. "That's where we want to go in the near future."