

More Larger Black Banks Needed

NBA Official Tells Nations Economists

Although the assets of Black banks have increased 334 percent in the last ten years, to a total of \$303 million, or four times as fast as the preceding decade, this is not enough, according to Dr. Edward D. Irons, Executive Director of the National Bankers Association.

Dr. Iron's remarks are contained in a comprehensive study of "Black Banking -- Problems and Prospects", scheduled for delivery before the American Economic Association in Detroit on Monday December 28, 1970.

Dr. Irons said that of the 26 Black-controlled banks, 16 have been organized since 1963, when the first of the newly organized banks opened for business.

"If this number of Black banks does not sound impressive in relation to the more than 13,000 banks that were in operation on June 30, 1970, it isn't," Dr. Irons said. "When viewed with the perspective history of Black banks, however, the advent of this increased number of Black banks suggests a microscopic revolution."

Additional Black banks are needed, Dr. Irons pointed out, not because they are Black, but in response to the banking needs of the communities where these banks are located.

"With rare exception, Black banks are typically located in the nation's ghettos," Dr. Irons observed. "If one accepts the premise that the general population needs a commercial bank that is convenient and empathetic to its financial and economic needs, should the Black population aspire to any less?" Dr. Irons said he agreed that the major banks could better meet the needs of the ghetto community, but he asked, "Have they done it?"

"Perhaps to some degree, they have," he answered, "but the preponderance of evidence suggests that major banks, by nature or by policy, devote a relatively small amount of their loan portfolios to small business, irrespective of race."

Dr. Irons emphasized a series of fundamental actions which, he said, must be taken to improve the strength and visibility of Black banks.

"In the first place, public policy must never to the pre-1963 period when Blacks were systematically discouraged from seeking banking charters. Secondly, the fundamental economic unit of the Black community i. e., the family, must ultimately be given the opportunity to earn on a parity with its white counterpart, thereby eliminating the 40 percent earnings gap between these two groups.

"Thirdly, the federal, state and local governments must begin to utilize Black banks as depositories in the same manner as other

banks are used. Fourthly, the major corporations, who through the sale of their products in the minority community drain resources from these communities, should consider using minority banks as depositories. This would serve as a counterforce to the continual wealth outflow from these areas, a phenomenon which I term a chronic balance of payment drain."

Dr. Irons continued, "Fifth, a supply of venture capital must be made available to the markets served by Black banks as a means of stimulating significant commercial activity. Sixth, the fledgling start toward the training and up-grading of Blacks to all levels of bank management must accelerate significantly and continue unabated. And, finally, once these banks and the bankers who manage them become accepted as integral parts of our economic system they will be capable of rendering competitive service to every sector of our society."

Dr. Irons said the major difference between Black banks and other banks of comparable size was mainly economic, i. e., difference in costs of operation. He made the following points in his paper.

Minority banks earn about the same amount of revenue on assets as do other banks of similar size.

On the other hand, it costs minority banks 27% more to generate income than do similar size banks.

Fundamental cause of this higher costs is the relatively low economic base of the market served by minority banks. This results in smaller accounts for minority banks which typically is about half the size of accounts of similar size banks.

These small accounts are high-active accounts than is true of a similar deposit volume in other banks.

Total salaries for example, at Black banks are almost 60 percent higher on a relative basis than at other similar size banks. A consequence of this is that Black banks make less return on their capital than other banks. This difference has ranged between one to four percentage points during the last ten years.

In spite of their problems, Black banks are making a significant impact in ghetto communities throughout the country.

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