Ethnic Banks' Logic of Reinvestment in Post-Crisis California:

A Case Study of Minority Depository Institutions in Los Angeles

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ABSTRACT

Minority residents and businesses have had to contend with segregation and with exclusion from access to finance during the long trajectory of US urban development. Historically, minority depository institutions (MDIs) have been at the forefront of efforts to revitalize disadvantaged communities by providing access to finance for minority-owned businesses and minority households. The approach taken by MDIs in supporting inclusive growth in the communities they serve can be termed their "logic of reinvestment." While the goal of meeting community needs for access to finance is a constant, the historical context of racial/ethnic economic inequality is a moving target: in recent years, urban racial/ethnic inequalities have been profoundly affected both by the subprime crisis and by the continuing cross-border flows of people, goods, and capital across borders. So contemporary efforts by MDIs seeking to serve the interests of the racial/ethnic communities they serve must be both backward looking and forward looking, taking into account inherited and emerging inequalities pertinent to economic development.

This study analyzes the dynamic racial/ethnic context for different MDIs confronted by ethnic banks associated with different ethnic communities in contemporary Los Angeles. We contrast the "logic of reinvestment" pursued by an African-American bank in South Los Angeles, pre- and post-crisis, with the circumstances of Asian-American banks serving a dynamic customer base with substantially higher levels of economic resources.

Keywords: ethnic banks, Los Angeles, minority depository institutions, subprime crisis, logic of reinvestment

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1. Introduction

One crucial challenge in US cities is that of revitalizing segregated urban space. Historically, minority depository institutions (MDIs) have been at the forefront of neighborhood revitalization; their absence, or developments that compromise their effectiveness, are thus a key barrier to achieving inclusive development in disadvantaged communities (DACs). As has been extensively documented (Massey and Denton 1993, Hernandez 2009), segregation and minority residents’ and businesses’ exclusion from access to finance have characterized US urban development throughout history. MDIs must, in taking on disadvantages rooted in discrimination and in spatialized exclusion, address these legacies. At the same time, the historical context of racial/ethnic economic inequality is a moving target. The processes responsible for racial/ethnic inequalities– economic dynamics marked by imbalances in market power, resources, and network linkages, as well as continuing cross-border flows of people, goods, and capital across borders – continue to operate across space and in time. Business cycles and boom/bust events within a given country and global trends in migration and capital flows are likely to have disproportionate impacts on racial/ethnic minority communities’ members and businesses. So contemporary efforts by MDIs seeking to serve the interests of the racial/ethnic communities they serve must be both backward looking and forward looking, taking into account inherited and emerging inequalities pertinent to economic development.

This study analyzes the very different implications of this dynamic racial/ethnic context for different MDIs by developing a case study of ethnic banking in contemporary Los Angeles. This geographic choice permits us to make use of some pertinent results from previous research on multi-ethnic banking in this city, and in particular to build on the work of Chiong (2014). Her thesis research showed how Broadway Federal Bank, the oldest African American bank west of the Mississippi River, was able to address the racial spatial investment gap and to provide access to capital through socially conscious and culturally appropriate financial services. Critical to this MDI's success, even in years of widespread subprime lending, was Broadway's particular approach in balancing profit with the good of the community, a concept that Chiong (2014) called the "logic of reinvestment" (LOR). The concept of LOR, developed for the case of an African-American bank serving a lower-income (and lower-wealth) community, is expanded here to encompass the case of Asian-American banks serving a dynamic customer base with substantially higher levels of economic resources.

The remaining material in this introductory section summarizes the evolution of multi-ethnic MDIs before the subprime crisis (section 1.2) and the challenges facing MDIs after the subprime crisis (section 1.3), and then sets forth the primary research questions addressed in this study (section 1.4). Section 1.5 then summarizes the material contained in the succeeding sections of this study.

1.2. Multi-ethnic MDIs' evolution in the pre-subprime lending period

Banks are important to community development and stabilization. Dymski and Veitch (1994) explain that the economic well-being of residents and businesses in any urban neighborhood depend on whether financial institutions choose to locate and lend there. Unhidden spillover effects from the location of banks can lead to the divergence of income and wealth across neighborhoods as differential access to financial products produce either positive or negative effects on neighborhood stability (Dymski and Veitch 1994). Local banks play a central role in establishing a climate for business and economic growth (Blakely and Leigh 2010; Squires and O'Connor 2001). In short, banks address the lack of capital in areas by stimulating savings and investment, create economic opportunity for individuals and small businesses, and facilitate development opportunities for quality affordable housing and essential community services. Through this community development lens, the location of banks becomes an important indicator of neighborhood economic vitality and stability at a point in history where the racial/spatial wealth gap between neighborhoods remains pronounced. Thus, we signal for a renewed attention to the role of MDIs in community development and prioritize the need to revisit this line of inquiry.

MDIs are different from non-MDI local banks and are important in their own right because historically, MDIs were established to challenge financial exclusion. As institutions originally tasked to serve minority populations in unique ways that allowed minority communities to utilize and maximize their resources and human capital, MDIs thus allowed communities to thrive. Our study builds upon an important multi-investigator project that investigated multi-ethnic MDI's in Los Angeles in the late 1990s and early 2000s. The Ethnic Banking Project placed ethnic banks from different minority communities into both the context of local development and economic dynamics in Los Angeles and the framework of cross border flows of capital and people from different points of national origin. The project found that each ethnic bank, or ethnic banking sector, is indeed unique; their trajectories being time-dependent and path-specific. However, no common evolutionary trajectory emerged; minority- and immigrant-financial institutions and communities have had no clear blueprint which all can follow. The project recognized that all ethnobanks were formed to serve their respective minority population and businesses. Their roles in community building, nonetheless, varied significantly due to their capital sources and the various degrees of transnational connections. For example, in the Chinese-American community, ethnobanks are primary conduits for savings and credit flows; these banks' substantial scale has provided them the opportunity to play an entrepreneurial role. As Dymski, Li, Aldana, and Ahn (2010, p. 188) concluded: "More than any other ethnobanking subsectors, the Chinese-American banks have tapped into transnational-financial resources and become part of the financial web across the Pacific Ocean."

Consistent with this study, research on local connections to transnational sources of capital show how investors use a co-ethnic place entrepreneurship that connects with investors from their home country to promote opportunities to invest their capital (Light 2002). Promoting awareness to their home country about local opportunity with cultural ties provides a degree of safety and trust and is key to attracting investment (Light 2002). In their study of "ethnoburbs" in Los Angeles, Li and colleagues (2002) note that unlike ghettos and enclaves, ethnoburbs emerge from the deliberate activities of ethnic minorities possessing both substantial financial resources and the capacity to generate stable income flows. These minorities select locations for residential and commercial activities based on different areas' economic and social potential. This special set of "macrostructural" circumstances provided the opportunity for the reemergence of an approach to banking that minimized financial exclusion (Dymski and Li 2003). Thus, for quite some time, we have known about the importance of differing levels of integration between local entrepreneurship, ethnic networks, and ethnic/international capital markets as factors that can help explain differences in the growth of ethnic economies in the U.S. (Zhou 1998).

Since the conclusion of the Ethnic Banking Project, MDIs operating in American cities have come under pressure from two emerging trends: first, the emergence of subprime mortgage lending aimed in particular at minority borrowers (Brooks and Simon 2007); second, a continued flow of substantial migration to the US from countries whose citizens, once they became US residents, would be denoted as racial/ethnic minorities. Both of these trends have been profoundly affected by the subprime crisis. Both have had financial impacts on the level and distribution of wealth by ethnicity, and thus on the capacity of MDIs serving minority communities. These asymmetric trends create opportunities and expectations on one hand, and constraints on the other, for ethnic banks serving different racial/ethnic communities.

1.3. Challenges for multi-ethnic MDIs in the post-subprime era

Any comprehensive analysis of how MDIs can undertake inclusive development must wrestle with the complexly-intertwined phenomena of both subprime lending and its aftermath, as well as of on-going minority migration and transnational capital flow patterns. This challenge is taken up in this study.

The subprime crisis encompassed the pre-2008 lending slowdown, the 2008 financial-system meltdown, and finally widespread foreclosures. This extended period of community distress led to the systematic loss of equity and wealth for some MDIs and especially for particular racial/ethnic minority households. This uneven impact on minority communities is one defining feature of the post-crisis period. This period is, at the same time, witnessing a transformation in urban planning, with urban regions across the country (and especially in California) pursuing “smart growth,” which focuses on sustainable community strategies that respond to climate change.

Since many US urban areas (California included) now have majority minority populations, and at the same time ethnic/income segregation has been deepened by the effects of the subprime crisis, socially conscious financial (re)investment enabled by a neighborhood-scale LOR is crucial to the success of post-crisis sustainable community strategies. Rebuilding the resilience of MDIs, and bolstering LOR as the critical operating foundation for MDIs, is crucial in achieving inclusive growth. MDIs were essential in creating banking pathways for the socially excluded; the lack of MDIs threatens to repeat historical patterns of divestment in DACs, rather than permitting these communities to participate in the expansion of climate-friendly public infrastructure investment that is now being undertaken. Here, it is important to understand how the LOR approach to community development is used given austerity measures deployed by governmental agencies as strategies for recession recovery. How do MDIs now operate in a post-recession economy?

1.4. Research questions:

Although our study provides an overview of the history of MDIs in the country, our study focuses on Los Angeles, California for a number of reasons. New strategies for the future of urban development and the infusion of capital into post-crisis Los Angeles now give special attention to the circumstances of the minority communities that have been disproportionately targeted by subprime and predatory lending. In California, a recent wave of environmental policies now requires municipalities to engage in reducing dangerous greenhouse gas emissions (GHG), which in turn lessens the effects of climate change on the state’s economy and public health. The legislative intent is to deliver major economic, environmental, and public health benefits for Californians, including meaningful benefits to the state’s most disadvantaged communities (CCI 2017). The creation of the Greenhouse Gas Reduction Fund stocked by the sale of pollution credits to corporations unable to quickly reduce their carbon footprint has resulted in the distribution of nearly 3.4 billion in funds to California cities and counties of which a significant portion is targeted for Los Angeles.[1]

California’s focus on environmentally friendly development and Sustainable Community Strategies, sometimes referred to as Smart Growth, relies on municipalities and regional multijurisdictional governance to identify and coordinate the development of projects suitable for funding. This “regional” approach emphasizes the use of coalitions of public, private, and nonprofit sectors that come together to develop a regional vision and strategy of action that can reverse patterns of divestment in minority neighborhoods (Drier et al. 2004; Pastor et al. 2000). This “new regionalism” promotes equitable investment through incremental development of social capital, institutions, ad hoc partnerships, and frameworks of incentives and mandates (Wheeler 2002). Accordingly, these strategies place an emphasis

1 See the California Global Warming Solutions Act of 2006. California Assembly Bill 32; Chapter 488, Statutes of 2006.

on community empowerment and community organizing models to achieve goals of regional equity, which in theory can bring development capital to disadvantaged communities. (Pastor et al. 2011).

Although effective in calling attention to the need for more equitable policies for ending concentrated poverty and segregation, such regional strategies produce a relatively minor sum of capital for community development in minority neighborhoods when compared to the amount of development capital entering Los Angeles. Since 2010, at least 9.5 billion in funds have entered the U.S. via the Immigrant Investor Program, also known as EB-5 (Rosen et al. 2017). The program allows immigrant investors and their families to gain lawful permanent residence by making a minimum capital investment of $500,000 in local development projects such as hotels and shopping malls (Rosen et al. 2017). Approximately 1,200 EB-5 sponsored projects, or just over 40 percent of such projects in California from 2012 to 2017, were initiated in Los Angeles County with the bulk of EB-5 investment coming from China.2

Rather than the result of equity-mined regional governance, this recent rush of transnational capital to Los Angeles is more likely an extension of investment networks and "macrostructure" established during the growth of the area's ethnoburbs during the 1980s and 1990s. California, more specifically Los Angeles, is by far the number-one destination for Chinese investment (Rosen and Hanemann 2012). Immigration policy through immigrant investor programs create pathway for transnational capital and has the potential to become an important source of capital for many more regional economic development projects (Singer and Galdes 2014). Consistent with this pay-for-residency opportunity, Short (2016) notes how immigration policy provides a safe-haven for the super-rich allowing the wealthy to limit taxation on wealth, guarantee asset protection, gain financial anonymity with low levels of fiscal transparency, and allows assets to be moved around the world rather than in fixed national space. The amount of foreign investment generated from investor-friendly immigration policy suggests a need to revisit the role of MDIs in the community development process.

This study maintains the structural and developmental approach that underlays the 1990s Ethnic Banking Project, with particular attention to whether the capacities and resources of MDIs are sufficient to serve as engines of economic growth for the co-ethnic communities they serve. As such, we raise several questions that link to the core concerns of the research whose tentative conclusions were quoted in section 1.1. Specifically, the following three questions will guide the research undertaken here:

1. How have the balance sheets of MDIs (in particular, loan activity by category of loan, deposits, borrowed funds, and capital) developed in the post-crisis years, especially compared with non-minority DIs of comparable size, and with larger banks' balance sheets?

2. What significant new challenges for reinvestment and inclusive development have emerged in the

2 Authors' calculations using raw data on EB-5 Investor Visa Program projects from Go-Biz, California Governor's Office of Business and Economic Development.

post-crisis period, and how can MDIs' "logic of reinvestment" be adapted to meet these challenges?

3. Are MDIs serving different minority communities – specifically, African American, Korean American, and Chinese American banks – facing broadly comparable inclusive-development challenges in the post-crisis period; and are their resources for confronting those challenges (their balance sheet growth and their logics of reinvestment) similar or divergent?

1.5. The structure of this study

Section 2 presents a brief history of minority depository institutions that encompassess the multi-ethnic character of MDI banking, and discusses the roles that these MDIs have institutions have played in their respective communities. This section turns from the broader history of these institutions to their specific roles in Los Angeles, and then turns to selected aspects of the geography of ethnic banking and minority-ethnic communities in Los Angeles, before and after the subprime crisis.

Section 3 then presents an empirical profile of the recent growth of MDIs in California, comparing this growth with that of non-ethnic banks. It then turns to an analysis of post-crisis balance sheet trends for a small sample (given data limitations) of California MDIs. Sections 4 and 5 then turn to specific examples of the logic of reinvesment: section 4, the case of Broadway Federal Bank; and section 5, the logic of reinvestment as it plays out for Chinese American banks. Section 6 then explores some of the further research questions regarding the role of MDIs in the future of minority economic development as shaped by the evolving triple context of racial/ethnic economic inequality, continuing migration, and trends in capital flows.

2. The Evolving Historical Roles of Minority Depository Institutions: A Multi-Ethnic Banking Perspective

This section describes the institutional development of minority depository institutions in Los Angeles. After we set forth the broad context of MDIs' development, section 2.1 describes the emergence of MDIs rooted in different minority/ethnic communities - African-American, Latino, Korean-American, and Chinese-American banks, in turn. Section 2.2 then turns to these banks' development in Los Angeles.

The history of minority banking in the U.S. can best be seen as a response to a long series of hostile conditions that ultimately became the template for subsequent patterns of urban growth. Throughout the US, labor shortages in cities during the World War years led to influxes of minority residents, especially African Americans from the Southern states and Mexican immigrants. In Western states, in particular, these patterns were augmented by significant migrations from Asia. The demand for cheap labor to build railroads and, later, to make steel and armaments, was thus met by population influxes who were subjected to systematic social and economic exclusion. California cities relied on sources of cheap labor from both immigrant and domestic non-white migrants as they grew. At the same time, the rise of anti-Chinese sentiment during the Gold Rush era laid the foundation for anti-immigrant policies to take root on the West Coast. Alien land laws restricted Asian immigrants from land ownership and residency and reflected a larger national trend that continued through the Post WWII years to racialize non-European groups in the U.S. The demand for housing by minorities increased at a rate never before contemplated by cities (Weaver 1948) as war time labor shortages triggered large-scale migration from the South and from Mexico to cities in the North, Midwest and West Coast.

Local governments in conjunction with the real estate industry actively engaged in efforts to halt racial integration and justified the need for residential segregation by claiming that the intent of residential zoning ordinances was "to preserve social peace, protect racial purity, and safeguard property values" Klarman (2004:79). During the early 1900s, cities used a variety of zoning rules, racial districts, and race nuisance laws to prevent integration (Godsil 2006). When these methods failed to pass the legal scrutiny of the courts, racially restrictive covenants on property deeds became the preferred method of deterring integration. The formation of the Federal Housing Administration (FHA) in the 1930s solidified the connection between race and housing finance when loan underwriting guidelines for obtaining a federally insured mortgage made loan approvals conditioned upon neighborhood homogeneity and property deeds containing race covenants. Large-scale community builders were able to construct new leaving suburban housing developments almost exclusively for whites (Jackson 1985:217; Freund 2006:17).

The onset of the long-term amortized federally-insured mortgage also shifted the bulk of housing finance from local real estate brokers to banks as FHA effectively reduced the need for the short-term, high-cost alternative credit provided by individuals and real estate brokers that monopolized housing finance prior to 1930 (Hernandez 2014). Banks were able to grow and expand rapidly by providing consumer friendly mortgages with FHA insurance as a protection against foreclosure. However, as race became a key factor in the calculation of financial risk (Stuart 2003; Chiong 2014), minorities were increasingly excluded from banking and financial services essential for homeownership and business expansion in segregated space. When the lack of capital flows to inner city minority enclaves resulted in blight, federal redevelopment programs during the period 1950-1970 reconfigured minority neighborhoods through displacement; a geographical morphing of our cities reinforced by mortgage redlining and cartel-like support from the real estate industry.

By the 1970s we see the fixed racial geography that created the baseline economic conditions for ethnic banking in California cities. In conjunction with the above segregation practices, urban development in California continues to isolate minorities from mainstream and investment banking constraining access to financial resources essential for neighborhood stability. Ethnic-owned banks, now known as Minority Depository Institutions, originated from this compelling need to fill the banking and investment void taking place in segregated communities.

2.1. The development of minority development institutions: a multi-ethnic perspective

African American banks, whose formation can be traced as far back as 1866 (Ammons 1996), were initiated as a direct response to the race-based exclusionary practices of mainstream banking that reinforced financial segregation in the US. In a sense, the formation of African American banks was initiated as a way of activism designed to create pathways for economic development in segregated neighborhoods (Chiong 2014). Black owned banks are part of a long tradition of segregated communities pooling together their resources and helping each other. From the Reconstruction era to the Great Depression, these institutions provided capital to black entrepreneurs and homeowners at critical times when financing was impossible or unfairly expensive to get (Gerena 2007).

The community-minded mission of Black-owned MDIs means they face issues of performance as they strive to meet social values as well as economic values at the same time. The amount of deposits in poor neighborhoods where these MDIs serve is consistently lower than normal banks and withdrawals happen within a short time of deposit. Because deposits and loan amounts tend to be smaller, transaction costs are higher than those experienced at larger banks. As a result, Black MDIs in the inner-city work with lower profit margins. Black-owned MDIs also experience higher loan default rates due to the smaller size of minority owned businesses and high incidence of crime in urban areas. These factors contribute to the instability of local businesses and homeowners, while increasing bank exposure to loan losses (Brimmer 1972; Price 1990; Gerena 2007). To maintain the capacity to cover transactions and maintain reserve requirements, MDIs tend to keep money in liquid assets such as government securities that offer lower yield rates when compared to other investments such as corporate bonds or loans (Brimmer 1972; Price 1990; Gerena 2007). However, these activities do little to produce development capital in the service areas.

Latino banking in the US can be traced back to Puerto Rico in the 1880s. However, Latino banking in the continental US began its growth in 1961 when the state of New York allowed international banks access to the local market (Rohter 1985) allowing the Banco Popular and Banco de Ponce to follow the large migration of Puerto Ricans to the state. On the West Coast, Pan American Bank, California's oldest Latino-owned bank was founded in 1964 to provide services to a rapidly growing immigrant population from Central America. Similar to African-American banks, Latino banks in Los Angeles operate in a low profit environment where immigrants are in a financial cycle of living from month to month, which makes accumulating money in a bank account difficult.

Despite efforts to expand Latino banking, many Latinos have been warry of using banks and have preferred to remain unbanked (Suro et al 2002; Bair 2003). Instead, families relied on check cashing and private wire-transfer services such as Western Union and MoneyGram, which are disproportionately expensive when compared to banks, to send money to their home country (Suro et al 2002). As the amount of remittances to Central America grew to a multi-billion dollar flow, predatory-like fees also grew. And because remitters come disproportionately from the poor, they were most often unaware of the full costs or actual fees charged for such services (Suro et al 2002). Predatory-like fees for check cashing services, sending remittances, currency conversion fees, in addition to fees gleaned at the receiving end resulted in fee structures that reached as high as 15% or more of the actual amount transferred.

The lucrative fees being charged to Latinos for remittance and check cashing services enticed large banks to enter the growing Latino market in need of safe and reliable financial products. Banks like Wells Fargo, Citibank and Bank of America soon offered low cost remittance products as leverage to cross-sell other revenue generating products such as mortgages and consumer loans. With the tacit consent of the US Treasury, banks were allowed to accept foreign government-issued identification such as the Matricula Consular when presented with Individual Taxpayer Identification Numbers (ITIN) in lieu of Social Security numbers. Banks were allowed to adopt this form of identification without technically violating the new security regulations of the Patriot Act and Bank Security Act (Freeman et al 2003; Kelderhouse 2002).

The ability to offer lower cost remittance products has brought banks and credit unions into the remittance service market. Remittances and connections to home country provide advantages and opportunities unique to Latino banking (Bair 2003). As a result, local Latino banks soon became targets for mergers with larger banks (see for example Koren 2015) in addition to U.S. banks acquiring stakes in Mexican banks (Suro et al. 2002). However, cross-border financial flows facilitated by improved bank services to Latinos represent a unidirectional flow where money is pulled from the MDI service area - not money being circulated back into local communities to promote community development. Although there is some evidence that remittances from US families have spurred efforts at community development in the receiving countries (see for example Goldring 2004), this has not been the case for Latino enclaves in Los Angeles as the focus for banks remains on fee generation through facilitating the safe transfer of cash from migrant workers in the US to their home countries. Capital remittances to home countries do not equate to foreign investment in Los Angeles' Latino communities – these banking tools were devised as a way to raise capital for banks. Without the bidirectional flow of capital to Los Angeles neighborhoods, Latino banking resembles black banks dependent upon and constrained by national banking policies.

Similar to Black and Latino banks, Korean banking in Los Angeles originated as a response to financial isolation from mainstream banking services. Korean banking has its roots in rotating credit associations, or "kyes," that made a serious contribution to Korean enterprise in Los Angeles (Light and Bonacich 1988). Often, Korean entrepreneurs leveraged their savings in the kyes with Small Business Association (SBA) loans to fund grocery stores, liquor stores, and restaurants in their neighborhood. The Korean government also provided loans through the Korean Exchange Bank to fund start-ups in the human-hair wig and clothing industries that flourished during the 1970s along with gas stations and restaurants. One rotating credit association actually morphed into the Global Oriental Savings and Loan, a federally chartered institution which opened for business in 1981. Korean American community banks began aggressively using the SBA program in the early 1990s to raise capital and stimulate the Korean American business community, which was reeling from the recession, the Los Angeles riots and the economic turmoil in Asia. By 1999, four Korean banks would dominate SBA lending in the Los Angeles area (Kessmodel 2000).

The Korean American community also benefits from extensive trade activity between Mainland Korea and the U.S. with the ports of Los Angeles and Long Beach acting as the entry point for automobile imports, medical and surgical equipment, electronics, communications equipment, apparel, specialty chemicals, and renewable energy components. Another indication of the extent of capital flow and migration between the local Korean American community and Mainland Korea can be seen in the EB-5 development projects funded by Korean nationals investing in projects in the US as a means of ensuring a "golden visa" for themselves and their family. As mentioned above, EB-5 development projects link certain local racial/ethnic communities to foreign investment and demonstrate how internal as well as external investment activities create development opportunities. But it is the overwhelming applications of EB-5 visa by Chinese nationals that have made headlines and contributed to the majority of EB-5 projects in California.

Chinese banking in the US has its origins in the Gold Rush activity of the 1850s as immigrant laborers in the Sacramento and San Francisco regions sought to send remittances to families back home. As their money was not always safe with mainstream banking, Chinese family associations coordinated remittances and small loans to laborers pooling resources to open small stores or laundries. However, these quasi-banking activities only led to one Chinese bank opening on the West Coast by 1937 (CHSSC 2012). By the 1950s and 1960s, the Chinese community's financial needs were still unmet as businesses such as bakeries, restaurants, and markets had to leave their neighborhoods for bank services when efforts to obtain a savings and loan charter were continually turned down (CHSSC 2012). Business leaders then circumvented state regulators by applying for a commercial bank charter leading to the first Chinese American bank in Los Angeles, Cathay Bank in Chinatown, in 1962. More Chinese American and Chinese foreign national banks (headquartered in China and owned by Chinese nationals) followed in the 1970s and soon Chinese Americans were able to more frequently obtain mortgages and invest in homes as they slowly moved out to Silver Lake, Lincoln Heights, Monterey Park, and the greater San Gabriel Valley.

Mirroring the tremendous boom of the China's economy and the increased economic relations between China and the US, local Chinese American banks that were originally established to meet the needs of the local Chinese American community have since become antidiscrimination vehicles to transnational entities (Dymski et al. 2010). Los Angeles's Chinese ethnic banks are a prime example of how the large influx of transnational capital from China has influenced the economic growth and development of particular parts of Los Angeles.

Unlike Black and Mexican communities, Chinese-American connectivity to international investment and foreign reserve capital brings an array of opportunity for local Chinese banking to grow. U.S.-China trade has increased from $4.8 billion to $366 billion over the last 30 years with the ports of Los Angeles and Long Beach together handling almost 36% of the total trade between China and the U.S (Sidhu et al. 2011). International student fees, strong international trade connections, long-term real estate investments, and increasing tourism programs organized by local business leaders link Mainland China financially to local Chinese MDIs. These strong ties also aid in the rapid expansion of EB-5 investment projects in predominantly Chinese suburban communities situated in Northeast Los Angeles.

Unlike Korean and Chinese banks which have continued to thrive in Korean and Chinese dominated areas, Japanese banks, especially ones that are opened by Japanese Americans, are scarce despite a history of an influx of capital from Japan to Los Angeles. (Japan remains the leader in foreign capital investment in Los Angeles (LACEDC 2016, 2017)). Japanese banking in Los Angeles first appeared in 1953 when the Bank of Tokyo opened its second West Coast branch. Over the years, a series of mergers and acquisitions by the Bank of Tokyo, Mitusbishi Bank and the Bank of California led to the formation of Union Bank of California with a strong presence in Northern California, the San Francisco Bay Area, San Diego and Los Angeles. However, the long term focus on assimilation by the Japanese both in banking and in residency has left the bank's original target population dispersed throughout the county. As a result, Japanese banking is not specifically targeted to a particular location to the extent of other MDIs.

2.2. The geography of ethnic banking and minority-ethnic communities before and after the subprime crisis

History shows that ethnic banking in Los Angeles started as a way to circumvent racialized banking practices. But clients of MDIs have found it difficult to escape long standing patterns of segregation and its punitive financial effects. Figure 1 shows how patterns of segregation in Los Angeles also became the geography of mortgage redlining during the 1970s. Moreover, these redlining patterns are also reflected in the wave of subprime lending, mortgage defaults, and foreclosures that devastated minority neighborhood during the Great Recession. Figure 2 displays the percent of homes issued a Notice of Default in Los Angeles during July 2009 to June 2010 and shows how mortgage defaults following the Subprime Boom mirror the redlining patterns found in Figure 1 during the 1970s. Thus, we can begin to see the intergenerational effects of housing policy that continues to have a profound effect on clients served by MDIs.

Figure 1. Mortgage Deficient Areas in Los Angeles. 1972. Source: California Department of Savings and Loan Fair Lending Report No. 1 Vol. II. 1977

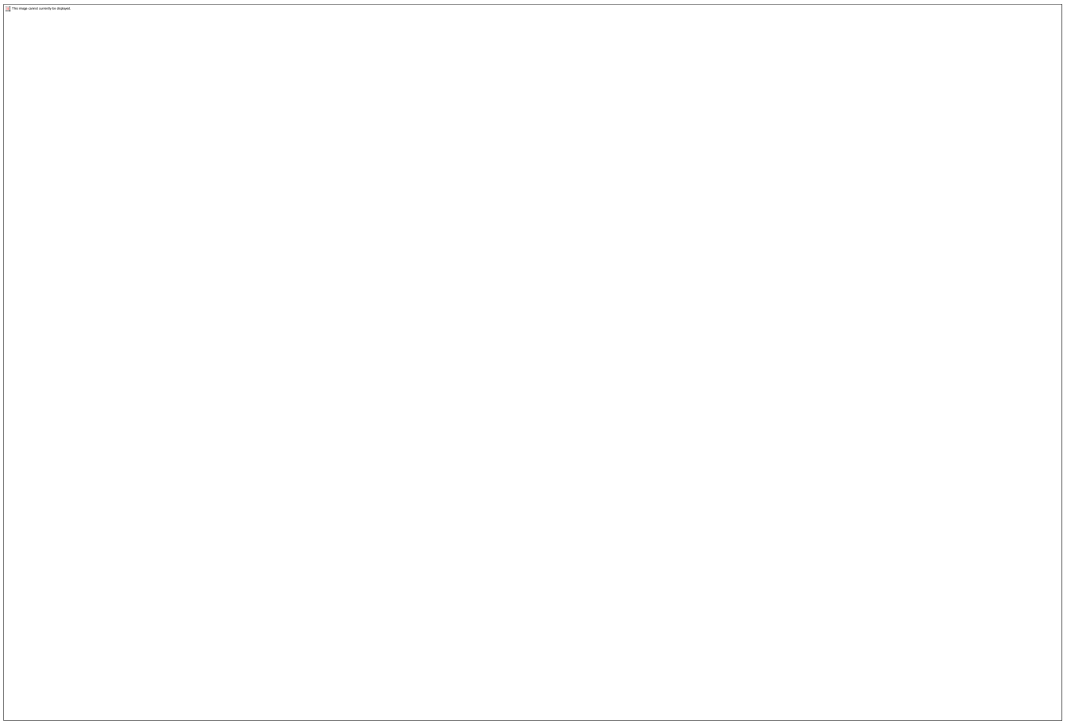
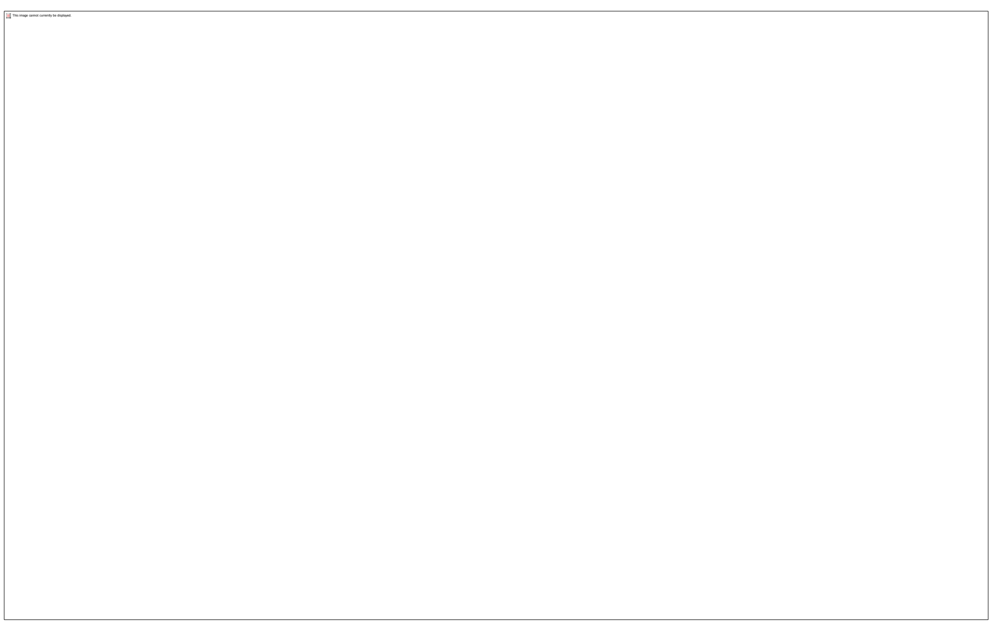


Figure 2. Percent Notices of Default by Census Tract in Los Angeles County July 2009-June 2010. Source: Authors’ Calculation using Dataquick Raw Data.



However, not all populations served by MDIs experienced the harmful effects of subprime lending and foreclosure. To identify loan characteristics that indicate potentially harsh and unsustainable credit terms on mortgages, we use data from Wells Fargo's Corporate Trustee Services (CTS). Wells Fargo CTS provides trustee and fiduciary services on asset- and mortgage-backed securitizations, municipal bonds, and warehouse/conduit programs created by public and private corporations. The CTS collects and reports loan- level performance information to investors for approximately 3.25 million subprime and "alt-A" mortgages.[3] The loan records are stored in a database known as the Columbia Collateral File and represent approximately five percent of the mortgage market.[4] The file contains 121,881 loans originated in Los Angeles County during the period 2000-2007 with roughly 98 percent of the originations occurring in 2003-2007 and accounts for 24 percent of all loans originated in the county contained in the file. The sample provides a reasonable snapshot of mortgage activity and loan characteristics during the peak years of the housing boom in Los Angeles County.

Figure 3. 2000- 2007 Subprime Loan Frequency and Asian Population Distribution in Los Angeles County. Sources: Wells Fargo Corporate Trustee Services Columbia Collateral File; US Census.

3 An "alt-A" loan, or Alternative A-paper loan, is a loan that is considered to be more of a risk to lenders than the traditional conventional, or A-paper, loan. Alt-A borrowers generally have excellent credit but may not meet traditional underwriting guidelines at the time of loan application. They may not possess all of the necessary documentation needed to qualify for an A-paper loan, such as employment verification or evidence of assets. However, alt-A borrowers are considered to be a much lower risk than subprime borrowers. Hence the need for an intermediate, or "alternative," grade of credit.

4 See Columbia Collateral File Summary Statistics. Alan M. White, Valparaiso University School of Law. http://www.valpo.edu/law/faculty/awhite/sep10_summary.pdf.

In Figure 3 we use census data to map the Asian population in Los Angeles County with subprime loan frequency. Because the Collateral File uses zip codes as the geographic identifier, we use zip codes rather than census tract to identify residency location. We can see how subprime lending frequencies were higher in the central city, which is predominantly African-American and Latino with a paucity of subprime lending taking place in Asian communities. The foreclosures that resulted from the wave of subprime lending during 2003-2007 undoubtedly impacted employment opportunities, property values, investment and development opportunities as well as the banking readiness for MDI clients. For example, bank location data show that in south Central Los Angeles, only two banks are available to serve over 45,000 residents. In contrast, we see 13 banks available in San Gabriel to serve 43,800 residents. In East San Gabriel, we see 13 banks available for 24,000 residents. And in Pasadena, there are 67 banks and credit unions to serve 139,500 residents.

3. **An Empirical Profile of the Recent Growth of MDIs in CA**

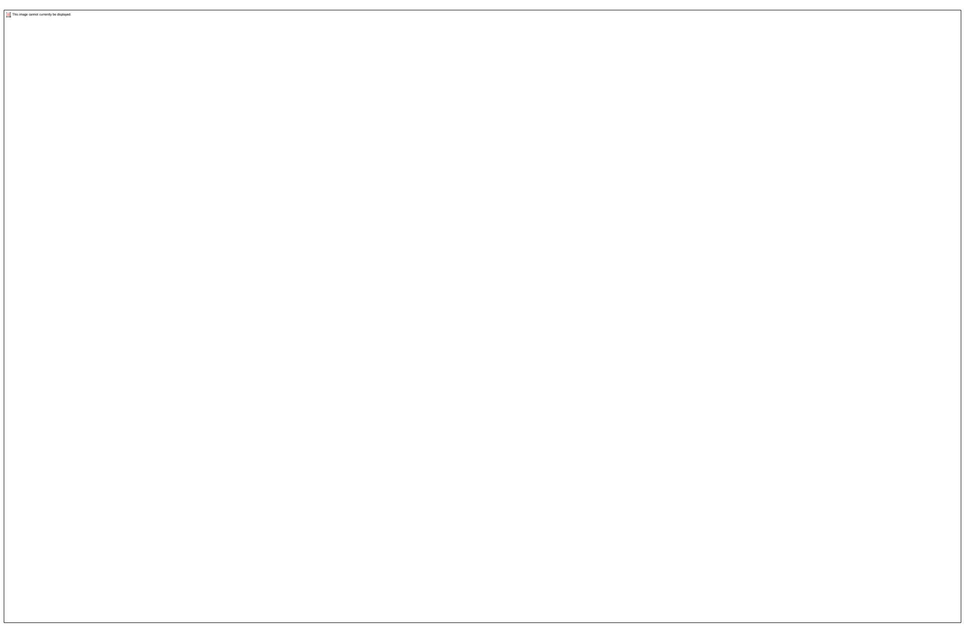
This section analyzes recent empirical trends for minority development institutions in California. Data are investigated over two time-periods. For the period 2001-2017, trends for MDIs are contrasted with those for non-minority depository institutions operating in California; and contrasts are drawn among California MDIs on the basis of ethnic ownership. Then balance-sheet trends for a small sample of ethnic banks are explored in the post-crisis period of 2011-2017.

3.1. Overall trends in ethnic and non-ethnic bank growth, 2001-2017

This empirical tour illustrates two chronic characteristics of California's economy: its relatively rapid growth and the state's tendency toward extreme boom-bust cycles. Further refinement of these figures is needed; but this preliminary analysis, based entirely on data drawn from the Federal Deposit Insurance Corporation, reveals some striking results.

Figure 4 illustrates the number of depository institutions of three kinds that currently have offices (headquarters and/or branch offices) in California, in the 2001-2017 period: California-headquartered non-minority banks; out-of-state non-minority banks with branches (and thus deposits) in California, and California MDIs. Three findings stand out. First, the number of California-headquartered non-minority banks has been falling consistently throughout this period, at a slightly heightened rate of decline since the subprime crisis. Second, the number of both out-of-state non-minority banks and of MDIs operating in California grew consistently until the subprime crisis and has remained steady ever since. Third, while out-of-state non-minority and MDI banks equaled 14% of all banks operating offices in California in 2001, they now comprise 37% of this total.

Figure 5 breaks out the number of MDIs by ethnicity of ownership. The MDI total is dominated by Asian banks. Asian American banks accounted for 73% of all MDIs in 2001, and for 90% by 2016. Further, the number of Asian American banks consistently increased through 2010, declining or remaining constant thereafter; by contrast, the ranks of other MDIs either has remained relatively constant or has declined (in the case of Native American banks, to zero as of 2013).



It is useful to move from comparing numbers of institutions operating in the state to these institutions' scale and capacity. Comparable data for non-minority and MDI banks is not available at the state level (and is problematic at the national level). The FDIC provides consistent data series for the deposits of non-minority banks operating in California. These data are compared in Figures 6 and 7 with MDI's overall assets, not for these banks' assets. Given that comparing deposit and asset figures is problematic, these figures illustrate several important points. First, per Figure 6, the scale of non-minority banks' CA deposits has exceeded MDI assets in California by more than 10-to-1 throughout the 2001-17 period (note the difference in scale between the right-hand-side and left-hand-side axes in Figure 6). So the 'catch-up' in the number of MDIs operating in California, with the number of non-minority California-based institutions, is not paralleled in these data on operational size. Figure 7, in turn, shows that MDI assets grew at a rapid (smoothed) pace in the period 2003-2010, but their growth has slowed considerably thereafter; by contrast, the deposits of all FDIC-insured institutions have grown at a smooth, if less spectacular pace, from 2007 to the present.

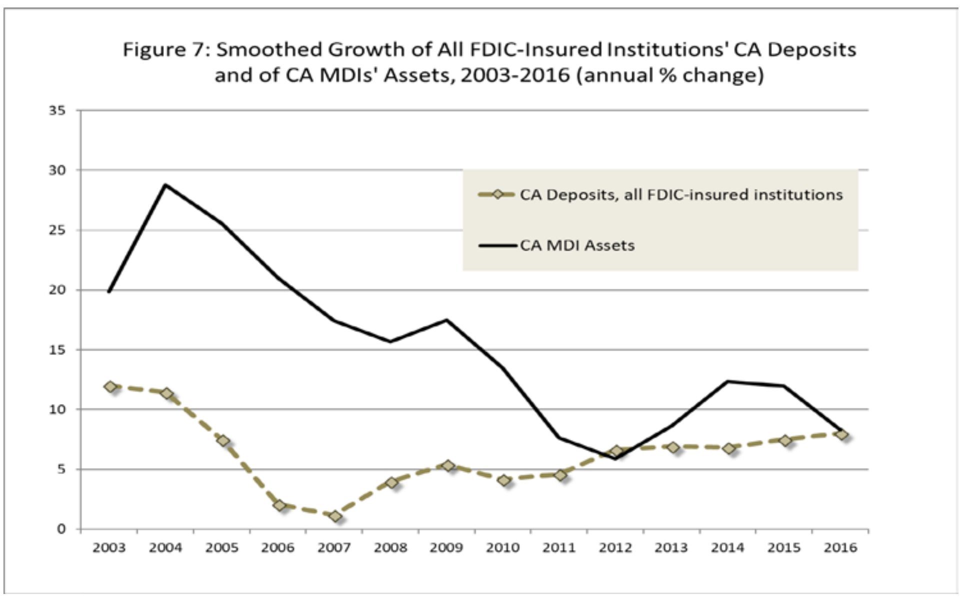


Figure 7: Smoothed Growth of All FDIC-Insured Institutions' CA Deposits and of CA MDIs' Assets, 2003-2016 (annual % change)

Figure 8 contrasts asset size for MDIs by ethnicity of ownership. Here the domination of the Asian American banking sector is evident. This sector has grown steadily from 2002 to the present; and whereas Asian American banks were just over five times as large as the other ethnic banking sectors in 2002 (using weighted data), these banks' asset totals have since 2012 been fifty times bigger. The scale differential is remarkable. This makes it clear that very different LORs are needed by the managers of these different MDIs. These data reflect the fact that while non-white domestic and immigrant populations have been consistently disadvantaged in access to labor, capital, and credit markets at all points of historical time (Takaki 1993), the forces and motives driving minority immigration have evolved in complex ways, especially since the subprime crisis – and further analysis of the operational and developmental implications of these scale differentials in MDIs in California is critically important.

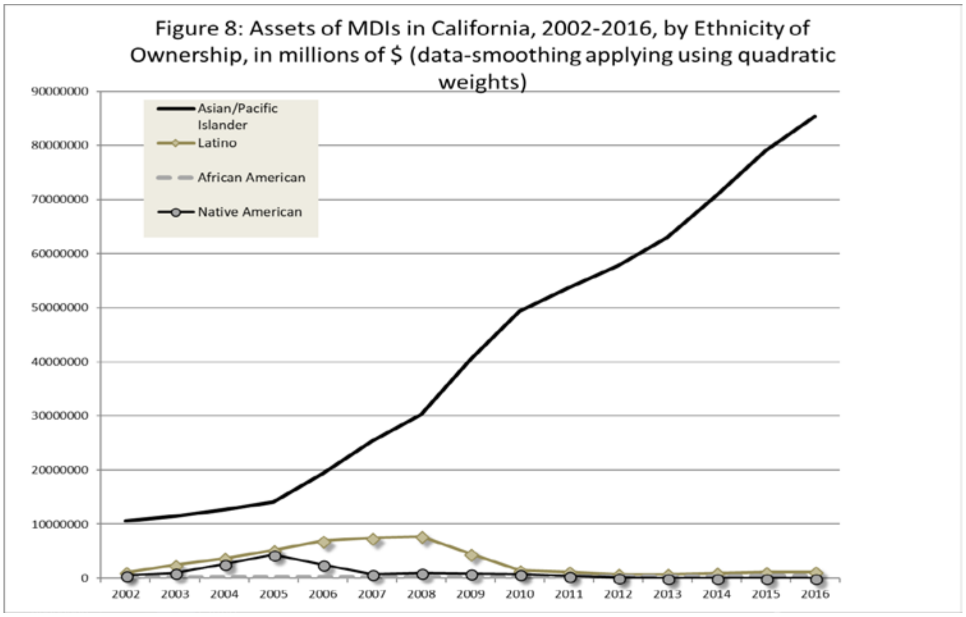


Figure 8: Assets of MDIs in California, 2002-2016, by Ethnicity of Ownership, in millions of $ (data-smoothing applying using quadratic weights)

The stark increase in assets of Asian Pacific American MDIs in Figure 8 is a puzzle that deserves additional studying. One co-founder of a Chinese American bank established at the height of the recession described the founders' rationale in creating a new Chinese American bank: the increasing rigorous regulatory policies placed upon banks were causing frustration among bankers and clients alike. Thus, they took the opportunity to start afresh at a new bank that did not have to worry about old loans that had gone bad (Interview CC19). This finding reflects the excellent financial opportunities some Chinese American MDIs are experiencing, but also underscores the varied types of logics of reinvestments found in MDIs.

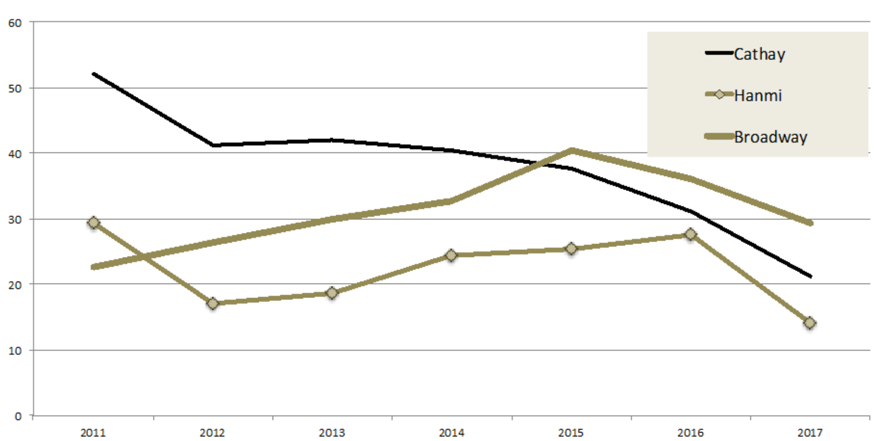
3.2. Post-crisis balance sheet trends for a sample of California MDIs

The data shown in Figures 7-11 demonstrate the widely differing circumstances of the MDIs that serve different racial/ethnic minority customer bases in California. As noted, the LORs pursued by these MDIs necessarily diverge as well, in the context of the contrasting fluctuations in population and capital of the communities served. This section drills down into three California MDIs' balance sheets to explore the implications of these differential LORs on two aspects of these banks' strategies.

Since MDIs are differently chartered and regulated, and only some are registered as bank holding companies, uniform balance-sheet data are not readily available. Further, balance sheet comparisons are hazardous for firms at different stages of business development. Since our primary interest here is in demonstrating how LORs differ according to the circumstances of racial/ethnic communities, we explore selected balance-sheet trends for three California-based MDIs with long experience in the banking business: Cathay, a Chinese-American bank founded in 1962; Hanmi, a Korean-American bank established in 1982; and Broadway Federal, an African-American institution founded in 1946. All three institutions came into being with the mission of serving minority communities whose members had found it difficult or impossible to conduct banking business satisfactorily with non-minority institutions. That said, these institutions' relative circumstances have shifted considerably over time. Cathay and Hanmi have been joined by a rapidly growing cohort of Asian American banks catering to a continuing flow of new customers and capital inflows. By contrast, Broadway is now the sole survivor of what was as recently as the early 1990s a group of three African-American banks operating in Los Angeles. Further, these banks have all been through the subprime crisis. And while many people of all racial/ethnic backgrounds fell victim to fraudulent banking practices and were induced to take levels of mortgage debt that could be supported only in a period of continuously rising housing prices, the African American and Latino communities were most heavily affected by the subprime lending boom and the foreclosure wave that followed it.

Evidence of these contrasting fortunes is readily found by examining these banks' balance-sheet data. Cathay's asset total climbed by 38.5% between 2011 and 2017, and Hanmi's by 77.6% in this same time period, while Broadway Federal's asset total in 2017 was 0.1% less than in 2011. As Figure 9 demonstrates, the dependence of both Asian-American banks on non-core (that is, non-deposit) funding fell between 2011 and 2017. Cathay's dependence on non-core funding fell from over 50% in 2011 to slightly more than 20% in 2017. Hanmi showed a less decisive downward shift, from 30% non-core funding dependence in 2011 to less than 15% in 2017. Broadway, however, experienced an upward shift in its non-core funding dependence during this time period – and from 2015 onward has supported less of its asset-base with deposits than have its two competitors.

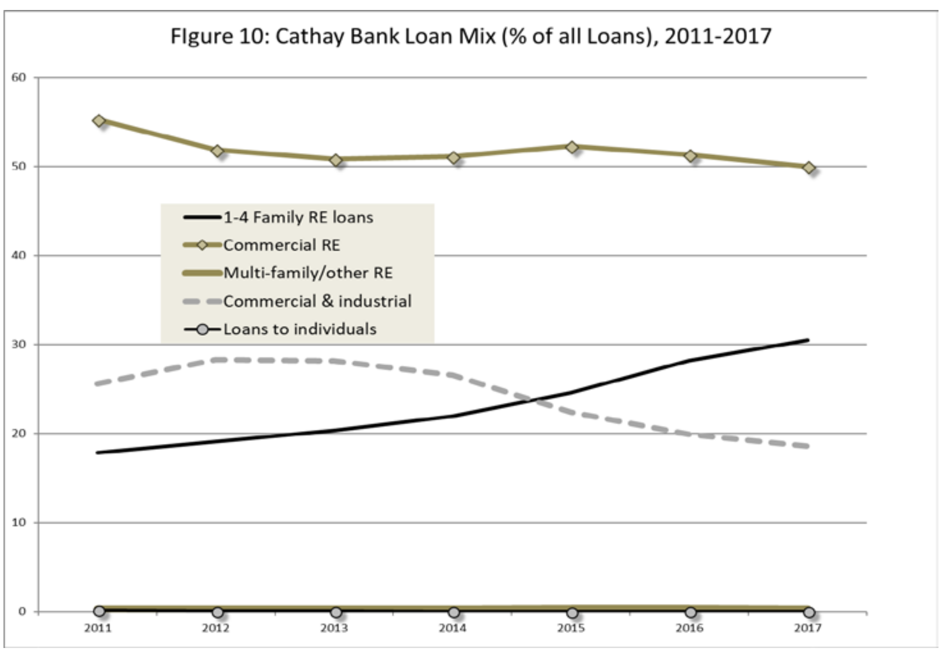
FIgure 9: Non-Core Funding Dependence, Cathay, Hanmi, and Broadway Federal Banks (% of all Assets), 2011-2017



Note: The figures for Cathay and Hanmi are drawn from Federal Reserve bank holding-company reports; those for Broadway are based on deposit-asset ratios reported in company 10-K reports.

These three banks' loan portfolios reflect, in the case of Cathay and Hanmi, the continued influx of residents, visitors, and financial flows that has fueled the continued growth of California's Asian-American community, and in the case of Broadway, the stagnation that has pervaded the African American community. Cathay's net loans grew by 72.1% between 2011 and 2017, almost double the rate of its asset growth, and Hanmi's 87.5% loan growth rate was 10 points higher than its asset growth. By contrast, Broadway's loan total sagged by 17.6% in the 2011-17 period.

This differential experience is also reflected in these banks' "loan mix" – that is, the distribution of their loan portfolio by category of lending. Figure 10 captures Cathay's 'loan mix'. Over half of its loan portfolio has supported commercial real-estate development throughout the 2011-17, and mortgage loans for single-to-four unit homes have risen from less than 20% to 30% of the loan mix during this time frame. Commercial and industrial loans – that is, working capital loans made primarily to non-financial businesses – have dipped approximately 10%; and Cathay makes virtually no loans for multi-family (5 units or more) housing or to individuals. Hanmi's loan-mix profile (Figure 11) is even more extreme. Its commercial real-estate lending has accounted for as much as 86% of its outstanding loans in the 2011-17 period, and never less than 71%. Loans for single home-ownership have doubled from 5% to 12.6%, while C&I loans have hovered consistently around 10%. As with Cathay, virtually no loans are made to individuals or for multi-family housing.



The loan mix for Broadway Federal (Figure 12) tells a very different post-crisis story. Commercial real-estate lending has fallen from a sixth of all loans to under 2%. C&I lending has fallen from an even lower 2011 base-level to zero. No loans are made to individuals. Loans for individual home-ownership have risen from just over 20% to a third. However, the central item on Broadway's loan portfolio is lending to churches and for multi-family housing. Of these two, churches get the larger share. The contrast between relatively robust church-based lending and the disappearance of C&I lending illustrates graphically how pitilessly the subprime crisis asset-stripped a community whose members were, on average, already disproportionately disadvantaged.

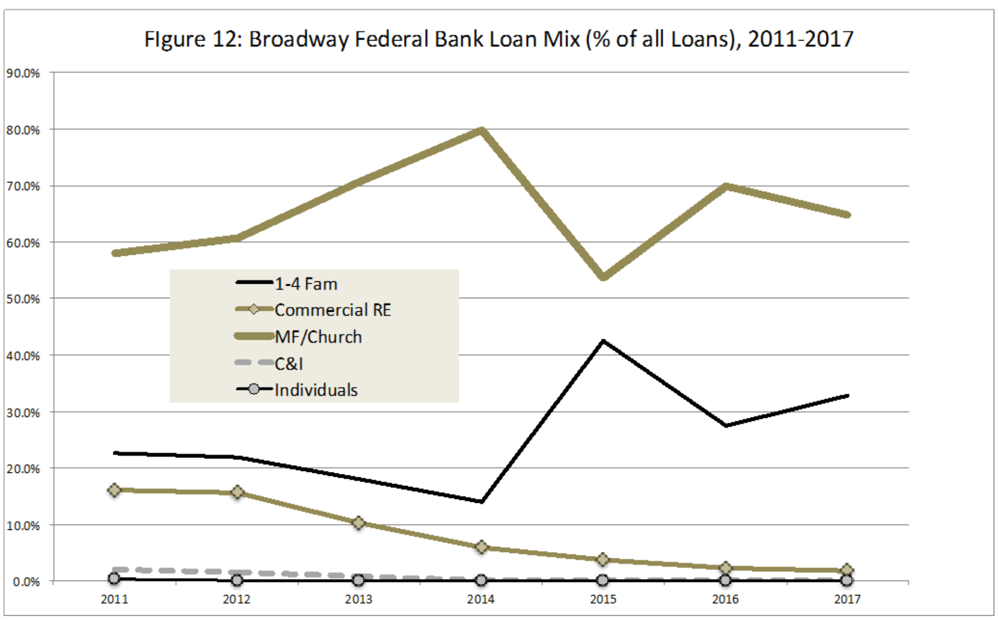


FIgure 12: Broadway Federal Bank Loan Mix (% of all Loans), 2011-2017

Figures 9-12 illustrate quite dramatically the quantitative differences among banks that share the designation as MDIs, and that are in many ways very similar (no loans to individuals, real-estate based lending profiles, and so on). The next two sections look further into the implications of these structural differences for these banks' LORs.

4. MDIs and the Logic of Reinvestment: The Case of Broadway Federal Bank

Broadway Federal Bank is an excellent example of how an MDI can use a LOR to allow bankers to pursue the dual goals of providing financial opportunities to an underserved community and remaining solvent. The LOR can simply be understood as "giving back" to one's community. It is a schema or cultural rationale (Bourdieu 1977) that people use to enact instrumental strategies. In other words, the LOR helps bankers at Broadway through a process of decision-making that balances the goal of empowering communities through financial opportunities while building sufficient profitability to maintain a viable banking business. Through the LOR, banks can contribute to human and economic development even in challenging times. This rationale was rooted in the history of bank and maintained through the generations of bank leaders who understood the importance of the dual goals of the bank and invested in relationships with community members.

Broadway Federal was established in 1946 by a group of civic-minded African American leaders in Los Angeles and its challenges throughout its seventy-year history encapsulates the obstacles that African American MDIs have in general: the lack of capital and the lack of a customer base that has the opportunity to accumulate wealth. In post-WWII Los Angeles, the African Americans who migrated to Los Angeles to secure decent paying jobs in the wartime period were ready to improve their circumstances and purchase homes. But in the midst of federally sponsored redlining and rampant segregation, African Americans were not able to pursue this goal. NAACP President and attorney, H. Claude Hudson; world renowned architect, Paul R. Williams; and millionaire businessman with a third-grade education, M. Earl Grant, were among the group who decided to pool their money together to establish Broadway Federal, a MDI that served the needs of African Americans and other community members in South Los Angeles (or South Central, as it was formerly known).

In the beginning, Broadway bankers operated similar in the way mainstream bankers operated using the embedded model of relationship banking where they provided based on the bankers' social relationship with the borrower. That is, the banker was "embedded" in the social relationship and fabric of the community, therefore the banker was able to determine whether or not to trust the borrower based on the banker's social relationship with the borrower and the knowledge of the borrower's standing in the tight-knit community. This embedded model worked well with the LOR in part because it relied on the social capital between the bankers and the community members. But as the mainstream industry began adopting a disembedded model of credit evaluation (i.e. with FICO scores, etc.) and the demographics shifted in South Los Angeles from a predominantly African American community to a community with a significant number of Latinos, Broadway bankers used their logic of reinvestment as a basis to tease out marginally profitable loans on a case by case basis using strategic embeddedness model, which combined the embedded model of relationship banking with the disembedded model of credit evaluation and allowed the Broadway bankers to use their LOR to make decisions that would benefit both the community and make the bank a profit.5 As difficult and time consuming as it was to make loans on a case by case model, generations of bankers at Broadway managed to help community members who mainstream banks either excluded due to their race, the location of their property, or was just found to be too unprofitable as customers.

However, in the post-subprime crisis era, Broadway has experienced significant challenges to its organizational emphasis on the LOR as company culture, shifting toward a strategic approach that focuses instead on profit, efficiency and growth. The trigger for this refocusing was not just the adverse post-crisis economic environment, but the discovery that between 2007 and 2010, a bank loan officer had engaged in a multi-million dollar fraud scheme involving mortgage applications submitted by churches (Department of Justice 2016). The bank's regulator placed it under a cease-and-desist order in 2010, forcing bank staff to meet elevated levels of reporting and compliance requirements (Office of the Comptroller of the Currency 2013) until the order's removal in February 2016. The church loan scandal rocked Broadway (Koren 2016) and created a dire need to recapitalize (White 2015). The fact that the bank survived the scandal and the subprime crisis itself demonstrates the power of the bank's LOR banking culture. However, this culture was lost not just because of changes mandated during the period of regulatory supervision, but ultimately because the bank's top management team – and subsequently many others who shared that leadership's mission of reaching a "dual bottom line" – departed in this time period. Paul C. Hudson, whose paternal and maternal grandfathers (H. Claude Hudson and Paul R. Williams) were the original founders of Broadway, and who represented the third generation of the Hudson family to oversee the bank as a "community trust," retired from the bank in 2012.

Many of the bank's management and staff, who enacted the LOR in everyday decisions in the pre-subrime crisis era, have since left Broadway; many of those who remain from that era lament the loss of the feeling of "home" and the emphasis on assisting and building relationships with community members (Interview TE19, Interview KP23, Interview UI34). The new leadership in the post-crisis period prioritizes profit and efficiency, and not the emphasis on building social capital, community relationships and providing financial opportunities to the underserved that formerly guided generations of Broadway bankers. The dual bottom line of the older LOR runs counter to the bank's subsequent focus on a single bottom line.6 As a result, Broadway has swayed from its LOR banking culture, which has served as the core of the organization's legacy and ability to achieve its dual goals of profit and community.

If Broadway were to try to rebuild its LOR banking culture in the post-crisis era, it would confront the

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5 For more on the embedded and disembedded models of credit evaluation, Stuart (2003) and Guseya and Rona-Tas (2001).

6 For example, one line in the biography of the current Chief Loan Officer seems to sum up the stark differences between the pre- and post-crisis periods' leadership: "With a commitment to technology and efficiency, he [the Chief Loan Officer/VP] is a profit-oriented manager recognized for his ability to successfully create and implement new products and efficient delivery systems." (See https://www.broadwayfederalbank.com/management-team).

same challenge it has historically faced: the community it seeks to serve is underserved – if not excluded – by mainstream financial institutions. Over 20 years ago, William Junius Wilson (1996) pointed out that the residents of inner-city communities such as South Los Angeles are closed off from access to decently-paid jobs and from educational and other opportunities; and Dymski and Veitch (1994) showed that South Los Angeles and other high-minority areas of the city lack equal access to financial services. In this post-crisis period, South Los Angeles still suffers from limited access to employment and professional opportunities; it remains a high-risk area for investors.

In effect, money begets money; and if its primary clientele cannot secure living wages or do not experience the same increases in property value as does the rest of Los Angeles, Broadway will struggle to remain profitable without significant investment or other initiatives. Our quantitative and qualitative data show how the external transnational capital from Asia into the Chinese dominated communities in the San Gabriel Valley remakes the economic structure of the area and the Chinese American MDIs themselves, and how the MDIs differ from those in the capital deprived areas of South Los Angeles where Broadway Federal Bank continues to operate. With a scarcity of capital, it is difficult for an MDI to make it to either a "single" or a "dual" bottom line.

5. MDIs and the Logic of Reinvestment: Chinese American Banks

The Chinese American banks in Los Angeles shared the same goal of the black banks of Los Angeles in their anti-discriminatory and inclusive beginnings of serving their community. However, the Chinese American banks took on a very different economic structure from the black banks beginning in as early as the 1960s when the Civil Rights Movement and the relaxing of the immigration laws allowed Chinese Americans to not only reunite with their families, but to accumulate wealth and own private property as well (Interview BN1). Then, as China's economic boom took off starting 1979 when it opened its door to international trade, the influx of transnational capital from China to Los Angeles boosted the local Chinese American communities even in times of recession in the past three decades. As we will show, the different growth patterns and economic structures of the Chinese American and African American banks can be attributed to the Chinese American banks' ability to access foreign capital. Although the oldest and largest Chinese American banks remain in what is known as Los Angeles's "old" Chinatown, located next to downtown Los Angeles, the concentration of Chinese American banks located in the so-called "New Suburban Chinatown" in the San Gabriel Valley (i.e., Alhambra, Monterey Park, San Gabriel and as far east as Rowland Heights) has spurred the San Gabriel Valley's other nickname, the "Asian Wall Street." This nickname is fitting given the sheer amount of transnational capital that flow in and out of the area.

The influx of transnational capital from China to Los Angeles can be seen in the strong trade, business, and investment in the area. A significant portion of the billions of dollars in trade between the US and China takes place in Los Angeles, and Chinese American banks play essential dual roles as a community bank and also as a conduit of transnational capital from Asia to Los Angeles. Since 1979, trade between the US and China increased from $4.8 billion roughly three decades ago to roughly $366 billion (Sidhu 2014:2). Forty percent of the US's trade with China is handled by the Los Angeles Customs District, with roughly the same percent of trade going through the ports of Los Angeles and Long Beach. Although trade declined between the US and China in 2009 due to the recession, the estimated two-way trade in the year was estimated at $155.3 billion, making it the largest importer into Los Angeles, and Los Angeles's number one export partner as well. Chinese imports coming through the Los Angeles Customs District (LACD) was valued at $132.4 and exports to China were valued at $22.9 billion; making its import-to-export ratio at 5.8, the highest among the LACD's trading partners (Sidhu 2014:3). According to Professor Baizhu Chen of the University of Southern California's Marshall School of Business, Chinese American banks in Los Angeles play a critical role of facilitating the sizable volume of trade going through the Los Angeles and Long Beach ports (Gold 2012).

The largest Chinese American bank in the US, East West Bank, specializes in "helping Americans navigate a maze of regulations to invest in China — and increasingly vice versa, as Chinese investors buy U.S. businesses and homes" (Reckard 2013). Chinese foreign nationals, businesses, immigrants and/or local cities' Community Reinvestment Act programs choose to work with Chinese American MDIs because language, familiarity and local knowledge of community (Gold 2012). As Baizhu Chen asserts, the "banks' presence in the Los Angeles region is not an accident, nor is it limited to the local banking needs of a minority community" (Gold 2012:2). "'Los Angeles is the gateway for America to do business with Asia. It is also a gateway for Asia into North America as well…The community banks are the natural bridge between this community in Los Angeles doing business with China…The banks provide liquidity, it's like the blood of the body, without the blood the body will not function…You have the finance coming from the banks to facilitate the buying and selling [sic]'" explained Chen (Gold 2012:2, emphasis mine).

The direct flow of foreign capital to Chinese American communities in Los Angeles is well documented and can be seen in the following categories: the EB-5 program, tourism, immigrants, real estate investments and business (Gold 2012; Reckard, 2013, Shyong 2014). The millions of dollars in the Los Angeles area by EB-5 investments underscore the power of transnational capital in the redevelopment of a community and the essential role of Chinese American banks in the facilitation of that influx. The EB-5 Immigration Investor visa program is a federal program in which foreign nationals are granted permanent residency when they invest a million dollars in a new development project (or $500,000 if the project is in an economically depressed area) that provides new jobs to American workers.

Many new developments in Los Angeles have been built using EB-5 money, especially in Chinese American areas, such as the San Gabriel Valley, where Chinese American banks are also located. Moreover, as Jordan Levine, Director of Economic Research at Beacon Economics, explains that the EB-5 capital is "basically all new money coming into the U.S. that wouldn't otherwise have come here in the absence of EB-5" and the Chinese American MDIs and the bankers play a significant role in bringing that money into the region through the EB-5 program (Gold 2012:2). According to Robert Kleinhenz, Chief Economist at the Kyser Center for Economic Research, this "'new money'…along with the banks' other financial roles in the community, have helped the local economy weather the 2008 recession" (Gold 2012:2). He says, "'I think that's [the EB-5 capital] an important source of capital for those communities right now…Many of them fared better during the recession than other parts of L.A. County. I think there was something unusual that helped those communities and that certainly could be the capital coming from China" (Gold 2012).

Furthermore, the business ties of companies with foreign direct investments in Los Angeles County and China are numerous and diverse. They include big and small companies that range from finance, law, professional services and technology to fashion, engineering and architecture. Minority Depository Institutions such as East West Bank and Cathay Bank represent the American companies headquartered in Los Angeles and have a physical presence in China. Others, such as COSCO and the Bank of China represent Chinese firms with a strong presence in the US (LAEDC 2014:4).

The economic relationship between the Chinese diaspora in Los Angeles and China run deep and are complex. In many ways, the investment ties between China and Los Angeles is a two-way street. Substantial US investments into Chinese factories and businesses in the post-1979 period has spurred the growth of Chinese exports and the China's economy in general. And foreign Chinese investment into Los Angeles has also spurred economic growth in Los Angeles. With roughly 130 establishments in Los Angeles, Mainland China and Hong Kong together ranked the ninth largest source of foreign-owned and/or -affiliated companies in Los Angeles County (LAEDC 2014). Over 50% of these establishments were involved in wholesale trade, but other popular companies include the Bank of China, China Mobile, China Southern Airlines, Cathay Pacific Airlines and China Eastern Airlines.

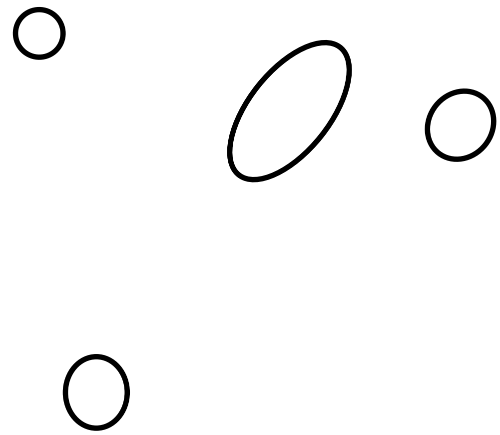
In sum, the economic structure of Chinese American banks in Los Angeles has the substantial advantage of the large influx of transnational capital flowing in from Asia, while the African American banks in the historically marginalized and economically depressed areas of the city have no such luxury and this impacts not only the way the Chinese American bankers make financial calculations and take risks, but it also affects these banks' logic of reinvestment because the external capital flow into the community can make a difference in the lives of ordinary community members. The stark difference in external capital between Chinese American and African American banks explains much of the difference in the size, character and financial health of these institutions. And it is unclear how to assist the banks who do not have the external influx of capital. As a former MDI banker asserts, perhaps this gap among banks will only continue to deepen (as the individual wealth gap has) unless drastic FDR's New Deal-like measures are taken up by the federal government to intervene and re-distribute money to smaller banks (Interview AV1). Furthermore, as a Chinese American MDI banker points out, not all Asian American MDIs are in the same position to benefit from the capital flow from programs such as the EB-5 because not all MDIs are equipped to acquire and handle EB-5 funds, which requires specialized knowledge and networks (Interview ZC23).

6. MDIs in an Evolving Migration/Economic Development Context: Further research questions

We know that co-ethnic relationships are key to banking in minority neighborhoods and are an essential prerequisite for the Logic of Reinvestment to take hold. However, we see that these relationships produce different results for each group in the post-crisis economy and that the application of LOR can change when circumstances of racial and ethnic groups differ. Do these co-ethnic relations attract development capital or result in economic extraction? In Los Angeles, immigration policy has a pronounced effect on the direction of capital flows. We noted how banking infrastructure for Latinos is now designed for fee generation from the movement of remittances to Central America. Uncertainties in residency here in the U.S. along with unstable economies in their home country add to the urgency for moving currency safely out of the country. Thus, banking strategies in Latino neighborhoods capitalize on opportunities for capital extraction as well as merger opportunities for U.S. mainstream banks rather than generating capital for local community development.

In contrast, co-ethnic relationships in Asian communities supported by investment-friendly immigration policy encourages connectivity to transnational capital and stimulates community development. Figure 13 shows the rapid increase in EB-5 projects since 2012 in areas with high concentrations of Asian residency. Following the pattern of “ethnobanking” previously noted in the Ethnic Banking Project, large clusters of projects using immigrant investment programs are found in North East Los Angeles, the very sites where the ethnobanking “macrostructure” was initiated. Monterey Park, San Gabriel, San Marino, Alhambra and Arcadia are examples where high levels of EB-5 investment and Asian residency are evident. Further east, in the communities of Diamond Bar, Walnut, Rowland Heights, and Hacienda Heights we see similar concentrations of EB-5 projects and Asian residency. Thus, we see some evidence of how the ethnic banking macrostructure is important to economic stability and long-term growth in minority neighborhoods, especially when supported by favorable policies.

Figure 13. Asian Population by Census Tract and EB-5 Projects (2012-2017) in Los Angeles County. Sources: US Census and EB-5 Investor Visa Program, California Governor’s Office of Business and Economic Development.



However, we remain concerned about the number of EB-5 projects found in predominantly Latino communities (see the areas circled in Figure 13), especially those situated between Asian residential enclaves in the east county. Places like Baldwin Park, West Covina, the City of Industry, El Monte, the City of Commerce, Pomona, and Echo Park have already experienced or are vulnerable to some degree of gentrification and displacement. Our fear is that exclusion in MDI service areas is now augmented by cross national capital flows; the logic of reinvestment is supplanted by mainstream commercial banking that is most supportive of corporate-driven commercial development.

The challenges of post-crisis minority community development are profound, given the differential impact of the subprime crisis on minority residents and businesses, and given the lost wealth and income that has resulted for many areas. As we have pointed out here, this crisis has come about in the context of a continuing inflow of population and money into the US, and into California. The US is not the only region of the global economy that has recently experienced crisis, and indeed the recent recovery in the growth of the US economy – combined with growth slowdowns elsewhere – has enhanced the attractiveness of the US (and pari passu of California) as a migration destination and investment target.

The shifts in US immigration policy, aimed at attracting productive (job-generating) immigrants while discouraging undocumented immigration, together with changes in the labor market (the rise of the gig economy, the increased use of robotic methods in production and service industries, the continued evolution of the digital economy, and so on), have affected the racial/ethnic communities served by MDIs very differently. Further, these communities live in cities and towns that have, in many cases, not recovered from the devastating losses in wealth and business viability that were realized in the subprime crisis and during its aftermath. This has compromised many community members’ capacity to participate in forward-looking planning and investment activities aimed at creating more circular and more sustainable economic growth.

The role of MDIs in this period of transition is evidently critical. These institutions have the capacity to generate investment and lending strategies that respond to the evolving circumstances of residents of racial/ethnic minority communities; in the terminology of this study, they can adapt their logics of reinvestment to the scale of resources and opportunities as they now are. These will differ across minority communities, even when ethnicity is held constant, as the historical and economic circumstances surrounding different minority communities can vary substantially from place to place and across time. Further refinement of the research launched here can indicate the ways in which MDIs are seen (and can view themselves) not as a vehicle for delivering standardized services, but as flexible change-agents able to help the communities they serve adapt in changing economic times.

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