MINORITY DEPOSITORY INSTITUTIONS AT THE DAWN OF THE 21ST CENTURY

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ABSTRACT

Financial globalization and international migration have altered the socioeconomic demographic makeup as well as the financial dynamics in immigrant-receiving countries. An outcome is the emergence and strengthening of a formal financial sector consisting of financial institutions that are owned and/or operated by a variety of ethnic groups. Known as minority depository institutions (MDIs), they are often small community banks associated with an ethnic minority group. This paper examines how MDIs are rooted and localized in different ways with different groups, and are shaped by different regulatory and institutional contexts. Specifically, it finds that MDIs serve co-ethnics first and foremost, and utilize ethnic assets, bonding social capital in particular, to develop their customer base while branching out to other groups by developing bridging social capital and broadening their product lines.

Keywords: minority depository institution (MDI); immigration; minority; social capital; ethnic assets

Small community banks provide about half of the loans to small businesses, and
it is precisely those banks that have been most choked by the post-2008 regulations.
We need to prevent recklessness, not risk-taking.

—Thomas L Friedman

While the "too big to fail" larger banks distributed trillions in fraudulent mortgages without criminal prosecution, the tiny Abacus Federal Savings Bank was targeted by the government as the problem. … No one in the government is looking out for these immigrant bankers.

—Peter Hartlaub, commenting on documentary film
Abacus: Small Enough to Jail

With a long history, MDIs hold a unique position in the financial landscape of the United States. MDIs are often small community banks associated with an ethnic minority group. The Financial Institution Reform, Recovery, and Enforcement Act (FIRREA) of 1989 defines an MDI as "any depository institution where 51 percent or more of the stock is owned by one or more socially and economically disadvantaged individuals." In 2002, a FDIC policy statement "allow(s) insured depository institutions to choose MDI status if a majority of the Board of Directors is minority individuals and the community that the institution serves is predominantly minority" (Breitenstein et al., 2014, 35). In this broadened definition, a MDI can be denoted by minority ownership, governing structure, and/or service area or clientele.

Formal MDIs have existed for more than a hundred years. Ethnic financing began with informal organizations such as rotating credit associations known as *hui* in Chinese and *gye* in Korean. This type of organization pools together financial resources from family members or a circle of friends to make loans to members in need. Borrowers repay to the money pool to sustain the rotating lending practice one round after another. The earliest was established in 1866 (Price 1990). Bank of America started out as Bank of Italy in the 19th century (Mach 1997). The first Asian-American MDI, Nichibei Kinyusha, was established in LA in 1899 by Japanese immigrants. It was turned into a California state-chartered bank, the Nichibei Ginko (Japanese American Bank), in 1903. This first wave of MDIs were all set up as a result of their community members having tremendous difficulty in securing residential and business loans from mainstream banks regardless of their qualifications. To combat mainstream banks' negligence of and discrimination against minorities and immigrants, the MDIs were often located in segregated residential and/or business areas (Day 2002; Dymski et al. 2010; Li and Lo 2008). The second wave of MDIs was prompted by the Civil Rights movement and two federal executive orders in 1969 and 1971 that instituted the Minority Bank Deposit Program (MBDP). The MBDP encourages minority-owned banks, women-owned banks, and credit unions that serve low-income communities to become depositories and financial agents. As a result, Asian American, African American, Hispanic American, and Native American banking sectors flourished. Asian American banks also proliferated as a result of the transnational financial connections of middle-class or wealthy immigrants coming from Hong Kong, Korea, and Taiwan since the 1980s, and, increasingly, from mainland China and India.

In the current era of intensified global migration and economic change, people, money, services, and information often flow together. They alter the socioeconomic-demographic makeup as well as the financial dynamics of the country. Whereas national immigration policies continue to attract investors and highly-skilled immigrants, national regulatory regimes govern the financial sector that manages the associated global financial flows. Focusing on MDIs that emerged since 2000, this paper aims to demonstrate that contemporary financial dynamics pertaining to immigrants and minorities is rooted and localized in different ways and with different groups. In particular, it aims to reveal the spatial patterns of these new MDIs' locations; identify the reasons for their establishment; and find out whether the utilization of social capital is a big part of their operation similar to their earlier cohorts.

There are three sections in this paper. After reviewing the literature on banking and immigrants/ minorities, section 1 discusses the role of social capital in banking operations and outreach; section 2 presents what we learn about the financial dynamics of 21st century MDIs; and section 3 summarizes the preliminary findings and discusses possible policy implications.

1. BANKING, IMMIGRANTS/MINORITIES, AND SOCIAL CAPITAL

The globalization process and its domestic financial manifestations have contributed to the polarization of banking services and economic inequality in different immigrant/minority neighborhoods. The complex and constantly evolving financial dynamics either facilitate the development of new ethnic residential clusters and/or business activities or further damage already impoverished minority neighborhoods. The "banked" communities enjoy capital accumulation and development investment, in addition to day-to-day financial transactions. The "unbanked," affording only cash transactions, are void of such capability. While providing money transfer service is an important way for banks to begin serving unbanked immigrants/ minorities (Samuels 2003), only banked immigrants can become part of the financial mainstream. In this regard, ethnic financial institutions, through communal ties and the use of social capital, play an important part in integrating immigrant communities into the financial mainstream (FDIC 2016; Li et al. 2002). Their presence holds important policy implications in both financial management and regulation, and immigrant and domestic socioeconomic development. We will discuss here the relationship between banking and immigrants/minorities, in general, and attend to the role of social capital in the banking industry.

1.1 BANKING AND IMMIGRANTS/MINORITIES

The literature on banking and minorities focuses on financial exclusion/inclusion (Leyshon and Thrift 1995). There are four major foci. First, there is ample discussion on discrimination: against individuals in the residential real estate market in that few minorities can gain access to residential mortgages (e.g., Clark 1993; Dymski, Veitch, and White 1992; Immergluck 1998; Leven and Sykuta 1994; Munnell et al. 1992; Schill and Wachter 1993, 1995; Schwartz 1998); against minority communities in the form of redlining and/or absence of formal financial institutions in minority neighborhoods (Caskey 1994; Dymski and Veitch 1996; Pollard 1996); and against minority businesses in not granting business loans (Bates 1997; Brenner et al. 2006; Grown and Bates 1992; Immergluck and Mullen 1997). Second, the roles of the informal financial sector, such as check cashing, pawn shops, and various rotating credit associations, are extensively evaluated. Traditionally, these informal financial institutions play important roles in fulfilling daily financial needs in immigrant neighborhoods and in capital accumulation for ethnic businesses (Geertz 1956; Light 1972; Light and Bonacich 1988; Lin 1998; Portes and Bach 1985). The third focus, gaining momentum lately, is on immigrants' access to the financial mainstream. According to Singer and Paulson, "financial institutions are in the process of adapting to meet the needs of incoming immigrants, and immigrants are in the process of learning the ropes" (2004, 2). Lastly, there has been increasing attention to the formal ethnic financial sector, the focus of this paper (e.g., Chiong 2009; Hum 2014; Li, Lo and Oberle 2014; Li and Lo 2015; Lo and Li 2016; Zonna 2015). Owned and/or operated by minorities/ immigrants, this sector often has a stated goal to serve their co-ethnics.

Immigrant banking at the turn of the 20th century was closely related to immigration patterns and financial regulations (Day 2002). According to Day (2002), unwelcome at mainstream American banks, Southern and Eastern European immigrants started their own financial institutions—often unregulated, unlicensed, and reliant upon communal trust and informal rules of conduct. Other immigrant groups followed suit in the course of the 20th century to battle discrimination from mainstream banks. At the dawn of the 21st century, however, the situation is quite different. The formal immigrant and/or minority banking sector has become much larger and, in some cases, are transnational entities.

In immigrant communities where financial resources are abundant due to the globalization of capital and/or the international flow of wealthy people, informal financial institutions no longer perform the key roles. They have been complemented and replaced by formal financial institutions. Recent work in the United States has shown that where national regulatory regimes permit, immigrants and minorities gain advantages from creating formal financial institutions that can capture and re-circulate their funds while making executive decisions on investing in their communities (Ahn and Hong 1999; Chiong 2009; Dymski and Li 2004; Dymski et al. 2010; Hum 2014; Li et al. 2001 and 2002; Li and Dymski 2007; Lin 1998; Smith 1995; Tseng 1994). Pollard (1995, 1996 and 1999) analyzes banking fluctuation and argues that the relatively permissive regulatory regime in California has led to a booming retail banking sector. Her argument helps explain the proliferation of Chinese- and Korean-owned US-chartered banks, and the emergence of Vietnamese-owned banks. This situation contrasts sharply with the relatively less-developed ethnic banking sector elsewhere in the United States until recently. By tapping into the social and financial capital of immigrants, especially in immigrant-concentrated metropolitan areas, ethnic banks have filled the void left by many mainstream banks. While the ethnic banking phenomenon has increasingly drawn media attention (e.g., Flanigan 2006; *LA Business Journal* 2006; Reckard 2006 and 2007), academic studies on this phenomenon remain limited and provide only cursory attention. Common threads in this research area include the evolution and performance of ethnic banks, and the relationships between them and immigrant/minority residential and business development (Ahn and Hong 1999; Chee et al. 2004; Chiong 2009; Dymski and Mahanty 1999; Dymski et al. 2006; Hum 2014; Li and Dymski 2007; Li et al. 2001, 2002; Zhou 1998).

1.2 BANKING ON SOCIAL CAPITAL AND ETHNIC ASSETS

Ethnic or not, banks, as profit-seeking entities, do not perform with an altruistic motive. In order to expand customer bases and to maximize profits in response to changing demographics, they may reach out to particular groups by developing and using social capital. This brings into question how social capital is utilized to achieve financial institutions' goals. A plethora of literature exists on social capital as a theory in the social sciences, most notably Bourdieu (1986), Coleman (1988) and Putnam (1993, 2000). Social capital "refers to connections among individuals—social networks and the norms of reciprocity and trustworthiness that arise from them" (Putnam 2000, p.19). There are bonding social capital and bridging social capital, the former referring to ties of people who share significant, often in-group, similarities, and the latter to ties to people who are significantly different and most often belonging to a different group (Putnam 2007, p.143-144). Bank customers can utilize bonding social capital to receive information from and/or financial services provided by co-ethnics whom they feel more bonded with, and ethnic banks can use the same to entice the co-ethnic community. Banks can also bridge social capital by doing things such as hiring workers from an immigrant group they had not worked with before and enlisting these workers to reach out to members of their community. Social capital conveys economic meanings. According to Bourdieu (1986) and Coleman (1988), capital can present itself as economic capital which is immediately convertible into money and may be institutionalized in the form of property rights; and as social capital which is convertible, in certain conditions, into economic capital. By "linking social relations to economic outcomes and in allowing social connections to be evaluated as though they are equivalent to capital, the term "social capital" incorporates a social and an economic dimension" (Li 2004, p.172). Thrift and Olds (1996, p.322) describe the roles of social webs "as social networks, especially financial markets (where access to information and exclusion from it is clearly a function of membership of particular social networks)." One of the key features of social capital to financial institutions is relationship banking (Black and Strahan 2002): building and sustaining relationships with clients in order to retain them and be more profitable in the long-run. Whereas most large mainstream banks primarily, if not exclusively, rely on standard credit scores and computerized evaluation systems, relationship banking remains a key characteristic among MDIs which function in ways similar to community banks (Holmes et al. 2007; Lapavitsas 2007). The question then is, to what extent do financial institutions use social capital differently? To address this question, work examining ethnic assets and their relationship with immigrant financial integration becomes important.

Dymski and Li (2004) coined the term *ethnic assets* to describe the situation when banks possess a familiarity with immigrants' native languages, cultural traditions, and business practices in the countries they operate. They can be seen as a form of both bonding and bridging social capital in the financial world. Of course, not all banks possess ethnic assets; not all ethnic assets are equal; and not all ethnic assets are utilized similarly. The ethnic financial sector is by definition most likely to possess ethnic assets among their co-ethnics as a form of bonding social capital, but may choose not to use them. Instead, an MDI may branch out of its own ethnic group by developing bridging social capital. Mainstream banks may not have ethnic assets to begin with, but may acquire them over time by hiring/promoting immigrants from a particular group or training existing employees/executives as their bonding and bridging social capital. Ethnic assets are then a key factor in successfully tapping into the immigrant financial market.

In this paper, we posit that contemporary financial dynamics pertaining to immigrants/minorities is rooted and localized in different ways and with different groups. Thus the utilization of ethnic assets varies among different ethnic minority banking groups, and their overall status, geographical distribution, and market performance differ accordingly. We rely on publicly available data from FDIC, minority and immigration demographic and socioeconomic data from the US Census Bureau, and GIS mapping to lay out the differences and similarities between the most recent cohort of MDIs and their earlier counterparts. We refer to interviews with bank executives and other secondary data such as information on bank websites to address the reasons for the establishment of new MDIs and their reliance on social capital in operating their business.

2. EMPIRICAL FINDINGS

In this section, we look at several aspects of the newly emerged MDIs, including an overview of this sector and its comparison to all FDIC-registered MDIs in terms of total assets and MDI type. We then look at their geographical distribution in relation to minority and immigrant population, and end with analysis on their utilization of ethnic assets.

2.1 NEWLY EMERGED MDI—COMPARISON TO ALL MDI

Table 1 compares the new MDIs and all MDIs by asset size, home state and type (for a complete list of newly emerged MDIs and their year of establishment, please refer to Appendix 1). Of the 46 MDIs listed in FDIC's database, about 29 percent were established after 2000. And only one of the 46 MDIs emerged after 2010. This signifies the tightening control on financial institutions consequent to the global financial crisis.

2.1.1 Total assets size—As newly emerged banks, none of the 46 MDIs has total assets that match those of the "big four" MDIs in the nation (respectively, East West Bank, $33 billion; Banco Popular de Puerto Rico $28 billion; Cathay Bank; and Firstbank Puerto Rico, both at $13 billion, as of March 31, 2016, per data released by FDIC). Only one, namely, the Los Angeles-based Royal Business Bank, has total assets greater than $1 billion. The combined total assets of the new MDIs make up about 8.3 percent of the total of all MDIs. Their average total assets, at $350.8 million, are thus much lower than the $1.2 billion average of all MDIs. However, the distribution among those in the $50 million to $1 billion categories is not that different between these two groups (Table 1).

2.1.2 MDI status—Among both new MDIs and all MDIs, Asian or Pacific Islander American (APIA) MDIs make up the largest group, followed by Hispanic American, Black/African American, Native American or Alaskan Native American, and multiracial American MDIs (Table 1). However, APIA banks dominate the new MDIs. Of the 46, 32 are APIA banks. The rest consists of nine Hispanic American banks, two Black/African American banks, two Native American or Alaskan Native American banks, and one multiracial bank. The average total assets of APIA MDIs, at $386.6 million, are also the highest among all new MDIs, followed closely by Black/ African American MDIs, at $343.7 million, Hispanic American MDIs at $327.4 million, and more distantly by Native American and multiracial MDIs with assets at $86.5 million and $ 70.6 million, respectively. It is clear that the financial strength of the new Asian and Hispanic American MDI groups reflect the nation's immigration trends. That the "big four" MDIs in the nation are also of Asian and Hispanic ownership illustrates how accelerated globalization has prompted people-money co-movement (Dymski and Li 2004), a subject we will go back to in the next section.

2.2 NEWLY EMERGED MDI—GEOGRAPHIC DISTRIBUTIONS

2.2.1 Home state—Table 1 illustrates that while 34 states have MDIs, only 16 of them host new MDIs. The new MDIs are geographically more concentrated. Map 1 illustrates the geographical distribution of all new MDIs. California (CA) counts for 26.5 percent of all MDIs but 39.1 percent of the newly emerged ones. Moreover, all of its 18 new MDIs (16 APIA and two Hispanic) are headquartered in Southern California, primarily in Los Angeles County. The concentration of MDIs in Los Angeles County has been well-documented in the existing literature (Dymski et al. 2010; Li et al. 2002; Li and Lo 2008). Georgia (GA) and Florida (FL) are runner-ups to California in terms of new MDIs. Five of the six new MDIs in Georgia are APIA and four out of the five in Florida are Hispanic. The other state whose share of the new MDIs is higher than that of all MDIs is Washington (WA). It is not surprising that the new MDIs emerged in California and Florida, but new MDIs in non-traditional immigrant area have yet to be fully examined, despite Atlanta and Seattle being dubbed as "emerging" and "re-emerging" immigrant gateways respectively (Singer 2004).

2.2.2 Branch distribution—there are a total of 187 branches among the 46 new MDIs, averaging about four per bank. The bank branches are more geographically dispersed than their headquarters. Table 2 and Map 2 show that they are located in 19 states. The top five states, California; Florida; Georgia; Illinois (IL); and New Jersey (NJ), account for 78.1 percentof them. The ethnic status of the bank branches in each state reflects the immigrant/minority composition of the state's population. For example, of the 17 new MDI branches in Georgia, 16 are APIA, and the remaining one recently converted from APIA to multiracial; this signifies the growth of Asian Americans in this state (Appendix 2). Similarly, in California, the largest gateway region for Asian immigrants, 75 out of the 85 new MDI branches belong to APIA. In Florida, the state with the largest number of Hispanic Americans, 23 out of the 24 new MDI branches are Hispanic American. Montana (MT) and North Dakota (ND), on the contrary, have large Native American populations and therefore most of their MDIs are Native American-owned.

Ninety-nine cities have at least one new MDI branch and 27 of these cities have multiple branches. With the exception of Los Angeles (LA), Miami, and Chicago, most are not big cities. As Li et al. (2002, 2014) demonstrate, these MDI branches are often closely associated with and in geographic proximity to the particular minority group they serve. For example, branches in Fort Lee, New Jersey; Flushing, New York; and Honolulu, Hawaii mostly belong to APIA banks. Several cities in Florida have large Hispanic American populations; Miami was even dubbed s the capital of Latin America for the money and people inflows from that region. On the other hand, Birmingham, Alabama, and Detroit, Michigan, are traditional strongholds for African American communities and businesses.

In the LA metropolitan area, an area with the largest number of new MDI branches, new APIA branches were opened in both traditional central city Asian immigrant communities (Chinatown and Koreatown) and suburban areas with large Asian communities, such as Arcadia, Pasadena, San Gabriel, Rowland Heights, and Torrance of LA County, and Irvine and Buena Park of Orange County. The branch distribution is closely associated with the distribution of Asian American population, Asian foreign-born population, and people speaking an Asian language at home (see Map 3, 4, and 5). The new APIA branches serve mainly the Asian population with low-to-median income, i.e., lower than the $65,000 median household income in California in 2015 (see Map 6).

Regions other than Southern California that host more than one Asian American new MDI branches are interesting for a closer examination as they are not in the traditional Asian American concentered areas. One example is Arlington, Massachusetts, which is located six miles northwest of Boston with a total population of 42,844 in 2010 and home of the Leader Bank National Association, . Its Asian American and Pacific Islander population grow 3.3 percent between 2000 and 2010 censuses, and reached 8.2 percent of the total population in 2010.[1] In the meantime, Doraville (home of both Metro City Bank and First Intercontinental Bank), Duluth (home of NOA Bank), Johns Creek, and Suwanee are suburban cities in the Atlanta metropolitan area (along the I-85, Peachtree Industrial Blvd., and Buford Highway corridor) and are known for their Asian American businesses (Walcott 2002). Their proportions of Asian Americans in total population as of 2010 are 17.7 percent[2], 23.9 percent,[3] 23.4 percent,[4] and 18.0 percent[5], respectively. The Atlanta metropolitan area, therefore, has become a growing Asian immigrant gateway (Singer 2004) with the sprouting APIA MDIs and their branches. Examination on census-tract level data indicates that their branch location is largely along major highways in suburban Atlanta, and closely associated with the distributions of Asian American population, foreign-born population, and those who speak an Asian language at home, although no obvious correlation with Asian American income level (Maps 7-10). A recent study found that there are large numbers of residents who speak an Asian language at home (Chinese, 33,768; Korean, 33,077; Vietnamese 32,169; and Hindi or Guajarati 28,358) in the six-county Atlanta metro area. The majority of the Chinese- (50.8%), Korean-(58.9%) and Vietnamese-speaking (65.2%) people self-reported that they spoke English less than "very well," including "well, not well, and not at all," (Jaret 2017). These people with limited English proficiency likely benefit the most from the services provided by co-ethnic bank employees and executives who speak their native language and understand their culture.

On the other hand, the pattern of the new Hispanic American MDI branches in Los Angeles is slightly different from that of the APIA ones (see Map 11). Only three out of the ten Hispanic branches are in cities with the large Hispanic populations (Commerce, Santa Fe Spring, and Costa Mesa). The rest are located along major freeways or emerged in non-Hispanic dominant cities such as Santa Monica, Glendale, Irvine, and Brea, but their locations reflect where clusters of Hispanic foreign-born population and the population speaking Spanish at home are. Like APIA branches, they are not geographically associated with where the few pockets that high-income Hispanics reside (Maps 12-14).

African American and Native American MDIs continuously embody their mission of serving the underserved co-ethnic population, as evident in their distribution patterns. Most African American MDI branches (six in Chicago, one each in Birmingham and Detroit) are located where their co-ethnics are. The two Native American MDIs are located inside a reservation in Montana and North Dakota respectively. Almost all of these ten branches are located in lower income neighborhoods across five states (Maps 15-18).

In summary, the geographic pattern of the newly emerged MDIs is similar to that of all MDIs, namely, their "headquarters locations are mostly found in a relatively small number of metropolitan areas. However, these same institutions maintain nearly 1,800 offices that are some-what more widely distributed" (Breitenstein et al. 2014, 41). The 46 new MDIs are headquartered in 16 states and 39 cities, whereas their 187 branches spread across 19 states and 99 cities.

2.3 NEWLY EMERGED MDIS: BANKING ON ETHNIC ASSETS

2.3.1 Global connection and local embeddedness—of the 46 new MDIs, some are globally connected, some are locally rooted, and some are both globally connected and locally embedded. The global connection of some MDIs can be traced to their names or what they explicitly stated in their websites regarding their history, their intended clienteles, and their international connections. For example, both LA County-based Pacific Alliance Bank and Pacific City Bank (and their Chinese names) denote their connection to the Pacific Rim through their names. Another example: While the name First Choice Bank does not indicate any ethnic connection, its Chinese name literally translates to "enrich Overseas Chinese Bank," [6],and therefore indicates its target demographic (*Weibo Cultural Corp* 2016). The LA-based Royal Business Bank, a new MDI with the largest total assets in the nation, states that it"is a Chinese-American business-oriented bank.… (serving) a unique market that is engaged in the highest degree of trade with Pacific Rim countries. … particularly … between Los Angeles County and China, Taiwan and other South East Asian countries."[7] The fact that it received the Outstanding Overseas Taiwanese Small and Medium Enterprises Award in 2013 also makes clear its root and clientele base. All directors and three-quarters of the executive management team are of Chinese American background. In the meantime, it also received a CDFI designation,[8] a sign that it also serves low/middle-income local communities as well. The Atlanta-based Embassy National Park, co-founded by two Asian Indian immigrants specializing in the hospitality industry and having an Asian Indian American board director, brings to light "the enlightened perspective of international experience, as well as the steady hand forged by three decades of success in business and finance."[9] The Miami-based, Hispanic American U.S. Century Bank "offers a comprehensive range of both domestic and international services with the latest technology to ensure quick processing. (It works) with importers and exporters in all matters related to international trade, and can help you to feel at ease in the world of international trade." Likewise, Plus International Bank, also Miami-based, is founded by "a group of Mexican entrepreneurs. … The Bank's Trade Financing specialists offer in-depth knowledge and professional advice to exporters and importers on doing business with Latin America and particularly with Mexico."[10]

For the locally-rooted MDIs, they emphasize serving a local clientele. For example, in 2001, the Hispanic-serving United Bank of El Paso del Norte was established in a community that is less than 75% Latino and 25 percent immigrants. The bank was started by issuing stock shares at $10 a share and anyone with a minimum of $1,000 could be an initial investor. Within a decade, it had provided the community 400 local small business loans, largely SBA loans with the backing of government guarantee (Pike 2011). In a similar vein, Urban Partnership Bank, one of the two new African American MDIs and the only new MDI formed in the 2010s in the nation, has branches in traditional African American areas such as Chicago and Detroit. Its website said that "a group of individuals, financial institutions and non-profits came together driven by a shared commitment to transform neighborhoods into flourishing communities by providing financial products and services that are often unavailable."[11] It is among a group of about 40 banks in the nation that were registered as both MDI and CDFI. Less than 80 percent of its loans were given to low-to-middle income and other CDFI-designated communities in the two service areas.[12] The other new African American bank, Alamerica Bank, "was organized by a group of well-known Birmingham area leaders who recognized the need for personalized banking services for business and professional customers."[13] More notably, North Dakota's "Turtle Mountain State Bank opened its doors on December 3, 2007 as the first privately owned Native American bank on a federally recognized Indian Reservation. … (To) fulfill the needs of the underserved"[14], and Montana's "Eagle Bank is the newest bank …. chartered on the Flathead Reservation …. With the Confederated Salish and Kootenai Tribes owning the bank on behalf of their approximately 7,000 members,"[15],a true community bank in a sense.

2.3.2 Utilizing bonding social capital and capitalizing on ethnic assets— Since they consider co-ethnic clientele as important, these new MDIs do utilize ethnic assets by capitalizing on their familiarity with the native language, cultural norms, and business practices of their customers. This is similar to what scholars described as "bonding social capital". As examples, seven of the 13 LA County-based new Asian MDIs advertised in the local- Chinese Yellow Pages, and six of them used both Chinese and English in their advertisement (*Weibo Cultural Corp.* 2016). American Plus Bank, with all but one bank directors being Chinese Americans, uses standard Chinese in their website to say that their bank promotes "beautiful and bountiful life."[16] Global Bank in Manhattan Chinatown, with two-thirds of the senior management team being Chinese Americans, maintains both standard and simplified Chinese websites.[17] Metro City Bank's headquarters in Atlanta and its Bayside, New York, office have trilingual signs in English, Chinese, and Korean, reflecting the clientele mix in these areas, whereas its other branches only have signs in English.[18] Both UniBank in Washington and Ohana Pacific Bank in Hawaii, a majority of whose directors are Korean Americans, maintain a Korean version of their websites, and the former says explicitly that it aims to "provide core community banking services to the ethnic minority businesses and individuals in greater Puget Sound area while achieving the highest level of confidence from the target client communities through conservative capital and risk management, profitability, honesty, and integrity."[19,20] Maintaining a website in its customers' native language is not unique to Asian American MDIs. Banks such as Intercontinental Bank (West Miami, FL), Plaza Bank (Seattle, Washington) and Plus International Bank (Miami, Florida) which were either founded by Cuban Americans or aim to serve Hispanic Americans, all have a Spanish version of their website.[21]

On the other hand, some banks make explicit statements about their ethnic and local roots as shown in the following examples:

- "Mega Bank is a Chinese American community bank opening for business in February 2008. Our board of directors is composed of experienced bankers who have had successful careers with community banks in the San Gabriel Valley."[22]
- US Metro Bank of CA indicates on its website that it "has two servicing areas. The first consists of most cities in Orange County, surrounding its head office in Garden Grove. The second is the area surrounding a loan production office in the heart of Koreatown of Los Angeles."[23]
- Similarly, New Jersey's Indus American Bank says it "is one of the first commercial banks focused on serving the South Asian community. … One of the fastest growing segments of the Asian ethnic group over the coming decade."[24]
- Americas United Bank is "a Hispanic-owned Community Bank in Glendale, CA serving business owners throughout the LA area."[25]

Serving clientele of a particular group often means hiring seasoned bankers or recruiting board directors from the similar ethnic background. DC-area based Old Dominion National

Bank recently hired the first Asian American banker to join its senior management team and recruited two more Chinese American directors."[26]

2.3.3 Developing bridging social capital and moving beyond ethnic assets—as suggested earlier, not all banks utilize the ethnic assets they possess. Some prefer to develop bridging social capital. Advertising in other languages is a means of doing so. For instance, all major mainstream and Asia-based foreign banks, as well as more established MDIs (the Hispanic Banco Popular, and Korean American banks: BBCN, Hanmi, and Saehan), advertised in Chinese Yellow Pages in order to court business from Chinese Americans (*Weibo Cultural Corp.* 2016). A number of new MDIs hire seasoned bankers outside their ethnicity to serve the local market. But unlike the earlier MDI cohorts doing so out of necessity due to lack of seasoned co-ethnic bankers, the new MDIs hire outside of their ethnic group because…. (Interview #3; Li et al. 2001 and 2002). For example, while five of the eight directors of Touchstone National Bank are Asian Indians, none in their senior executive team is of Asian American background.[27] With the Tampa-based Central Bank, only one of its eight Asian Indian founders served at the executive management level. It says, "(our) overall strategy … has always been to be an independent community bank providing a higher level of personalized service than is generally available from larger banks. … We respond to people and small business owners on an individual basis. … The majority of the business of Central Bank is relationship based, meaning most customers will have multiple account relationships, especially loan customers. … We are able to offer responsive decision-making on loans, because decisions are made here, locally."[28] Similar to findings from our previous work, some new MDIs continue to rely on relationship banking to develop long-term relationships with their individual as well as business customers (Li et al. 2001; Li, Lo and Oberle 2014). California International Bank, N.A., formerly known as Saigon National Bank in Little Saigon area of Orange County, "is a minority-owned community bank devoted to serving the financial needs of the Vietnamese business community in Southern California. Our shareholders, directors and bilingual staff are all local people who know the community and the culture. … Our goal is to participate in the vibrant economy of the "Little Saigon" area."[29] The bank, however, changed its name for broader appeal and moved its headquarters to Rosemead San Gabriel Valley, an eastern suburb of LA, in 2016, as the result of new ownership and investment by Vietnamese Americans.[30] Atlanta metro area's State Bank of Georgia recently reclassified itself from an APIA MDI to the nation's only multiracial MDI, signifying it branches out to broader local communities. It values itself as "a locally owned and operated community based bank. Our board consists of a good mix of business leaders throughout the greater Atlanta area, predominately from the south metro area. … The professional and cultural diversity of this group will allow us to have a broad based appeal in our market place."[31] As the only new MDI in the southern part of Atlanta, their location is not in a highly concentrated Asian American area (Map 7). A Florida-based bank clearly stated that they have a "diverse customer base reflecting the local community we serve. … [they] act as a trusted advisor, guide them to the best choices, and step in when other institutions neglect them" (Interview #9). Some banks grow "organically" by opening branches on their own, such as NOA Bank; whereas others also acquire existing banks to grow both customer base and service area. Royal Business Bank, for example, "acquired four banks since 2011; First Asian Bank, Las Vegas, Ventura County Business Bank, Oxnard, Los Angeles National Bank, Buena Park, and TomatoBank, Alhambra." It first focused primarily on Chinese American clientele, but expanded its customer base through these acquisitions. Reportedly, it also targets immigrants from Burma, India, the Philippines, and other Southeast Asian countries, as they are less familiar with or unwilling to deal with mainstream banks but do not have their own co-ethnic banks.[32, 33]

3. DISCUSSIONS AND POLICY RECOMMENDATIONS

Two important findings emerged from this initial research on new MDIs. First, the results of this research demonstrate that global financial situations and global money flows have significantly impacted the emergence of minority banks. Most new MDIs emerged prior to the 2008 global financial crisis. To be specific, 70 percent of the APIAMDIS, half of the Hispanic American MDIs, and all Native American and multiracial banks were established between 2005 and 2007. The dominance of APIA MDIs, especially in LA's San Gabriel Valley, reveals the significance of global money flows. Our bank interviews confirmed two major reasons for their emergence: First, the general economic environment was good during this period. Second, the merger wave among APIA MDIs in the early 2000s resulted in a group of "surplus" elite Asian American bankers who then became core founders of the new APIA MDIs in mid-decade. With mainland Chinese starting to join the board of these new Asian MDIs, it is clear that these banks benefited from capital investment by the new wave of Chinese immigrants from mainland China. Some of these new banks chose to headquarter in San Gabriel Valley mainly because the city is well-known in China (Interviews #3; 15). Second, we contend that while the new MDIs serve co-ethnics first and foremost, their differences in size, nature, and capacity stem from differences in the national financial regulatory regimes and in immigration dynamics. This explains why new APIA and Hispanic American MDIs are larger and more numerous than the African American and Native American MDIs. The new MDIs utilize ethnic assets (bonding social capital in particular) to develop their customer base while branching out to other groups by developing bridging social capital and broadening their product lines.

But like all financial institutions, they face the new reality of tightened regulatory control in this post-financial crisis period. Only one MDI emerged since 2010. The new MDIs are in a particularly challenging position. Given their newness and smallness, they are more volatile than their established counterparts. Since this research started a few months ago, the number of total new MDIs nationwide was down from 47 to 46 (one less when the LA-based, Hispanic American PROAMERICA Bank merged into Pacific Commerce Bank.) The status of another Hispanic American MDI in a newly emerged immigrant gateway is currently in question as it closed its solo Hispanic-serving branch (Interview #9; 34).

Beyond the external environment, newly emerged MDIs need to resolve internal issues in order to be more successful in the long run. For instance, some banks have cultural differences, if not clashes, between different generations of co-ethnic bankers, or between bank executives of different ethnic backgrounds. On the other hand, how to resolve/plan leadership succession within the banks in order to keep their missions also loom large, evident in the session "Strategic Planning for Succession Management" at the 2017 MDI conference in LA. New MDIs, similar to the entire MDI sector, are often led by older and seasoned bankers. Some started their banking career as tellers or as part-timers while attending college. Over time, they built their credentials and trust within their communities and with government regulatory bodies. A few even serve on advisory committees in FDIC or OCC [33] (Interview #3, 21). Impending retirement of these bankers will pose challenge for the MDIs.

As next steps of new MDI research, we suggest conducting more interviews with new MDIs (sectoring by asset size, period of establishment and geographical location) to learn more about their role in immigrant/minority community development and the challenges they face in the current regulatory regime; reaching out to staff from MDIs that are no longer in existence to gauge their lessons learned; and conducting a case study on MDIs that emerged in new immigrant gateways (e.g., the Atlanta area) for further discerning the relationship between immigration and MDIs. Results from these endeavors can shed light on the new dynamics of MDIs.

Meanwhile, to facilitate healthy growth of MDIs, we suggest the following possible policy interventions:

1. providing training to regulators to understand the culture of MDIs and their clienteles, i.e. to build ethnic assets among regulators;
2. developing flexible policies instead of continuing with the one-size-fit-all types to ensure MDIs are financially sound and socially responsible (we note that some MDIs with flexible lending programs prior to the financial crisis had to eliminate them in the aftermath of the financial crisis and tightening regulations);
3. establishing inter-agency federal advisory board consisting of academics, minority consumers/entrepreneurs and NGOs, and people who have had both MDI and federal regulator experiences; and
4. diversifying federal regulatory boards/decision-makers to be more reflective of MDIs themselves and the clients they serve.

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