

Minority Banks Broaden Focus

Long Island Business News; By Claude Skolnik

8/23/2013



Mike Puorro

Hanover Community Bank opened in Garden City Park in 2009 with a plan: break through the clutter of community banks to directly serve a growing Asian population.

The plan crumbled under heavy losses that nearly broke the bank.

Hanover launched right after Wall Street's 2008 meltdown, and its \$12 million war chest couldn't sustain what extended well past the typical 18-month losing streak any new bank might suffer. Hanover's capital tumbled and regulators noticed.

But the one-branch bank didn't go under, and now, with a new CEO, executive staff and board, it is in the midst of a makeover, raising \$10 million and expanding its focus to the more generalized population.

It's not the only ethnically focused bank rethinking its plan.

It's a mixed bag for "minority depository institutions," as they are sometimes known. Many struggle, redefine themselves or sell out to larger banks. Some, buoyed by investments, thrive.

For every near-collapse like Hanover, there's a Carver Federal Savings Bank, which was founded in New York City in 1948 to serve African- and Caribbean-Americans. Carver today has grown to 10 branches in Manhattan, Brooklyn and Queens with \$640 million in assets.

It lost \$66 million since 2008, but recently rebounded with three consecutive quarterly year-over-year profits, replacing massive losses with modest gains.

Chief Executive Deborah Wright said the recession decimated Carver's real estate loan portfolio, but now its loan performance is rebounding, while "our leadership team has been strengthened in all critical areas."

That's the recipe at Hanover, too, which has suffered net losses every quarter since it opened.

Rescue operations

Hanover hasn't reached profitability just yet, but it's inching closer: Still operating under an FDIC consent order, Hanover has lost more than \$900,000 in 2013 as of June 30, pacing the \$1.8 million it lost in 2012 and staying ahead of yearly losses it has racked up since 2008, ranging from \$2 million to \$3.8 million. It also cut its second-quarter 2013 losses to \$341,000, down from a first-quarter loss of \$600,000.

The goal now, according to CEO Michael Puorro, is to start turning a profit, perhaps by the end of this calendar year.

"We saved a bank," said Puorro, who has been CEO for a year. "We've raised capital and we're growing the bank."

Puorro's revamped leadership team is filled with professionals with successful track records. The new CEO boasts stints as president of Madison National Bancorp (now part of First National Bank of New York) and CFO of New York Community Bancorp and Roslyn Bancorp.

CFO Paul Hagen, a former KPMG accountant and CFO of Reliance Federal Savings Bank, helped found Community National Bank. And Chief Credit Officer Ken Sapanski came to Hanover after serving as senior vice president at Suffolk County National Bank.

Hanover has also found hope in its broader mandate: It will still lend to Asian-Americans, but the bank is targeting borrowers based more on credit than national origin.

"Not too many banks on the brink of failure come back to life and thrive," Puorro noted.

Still a one-branch bank with just \$83 million in assets, Hanover's resurrection is a relatively small banking story. But along with Carver, it's part of a bigger niche that's struggling to find its place in a changing economic environment.

The FDIC reports 180 minority depository institutions nationwide with \$179 billion in assets. According to federal regulators, 26 of the banks focus on African-American customers, 30 focus on Hispanics and 70 serve Asian-American communities.

Minority depositories are designated by the FDIC based on a charter that specifies marketing to and serving minorities. Usually, most board members are minorities themselves.

Nearly 20 of the banks designated by the FDIC as minority depository institutions are in New York, which trails only California, where there are 45, most targeting Asian-Americans.

Pasadena-based East West Bank, the biggest minority depository in the nation, is an Asian American-focused institution with more than \$22 billion in assets, while Los Angeles-based Cathay Bank boasts more than \$10 billion.

In New York, Banco Popular North America is the only minority depository to break the billion-dollar barrier, with \$8.7 billion in assets.

The Empire State's low number of billion-dollar minority banks is not a cultural indicator, but a symptom of a niche industry that paints itself into a corner, according to Art Loomis, president of Latham-based banking consultant Northeast Capital.

"Any time you have an organization that doesn't cater to a broad customer base, that hurts their ability to grow," he said.

Still, others are able to thrive, with a little help. Last month, the New York State Empire Development Corp. approved a \$480,000 grant to help Carver Savings, which claims 45,000 accounts, make more loans

And then there's Flushing-based NewBank, which launched in 2006 as a Korean-American depository and boasts nearly \$300 million in assets. It is winning kudos from the Independent Community Bankers of America, which named it among the top five banks in the United States with up to \$300 million in assets, based on return on assets and other criteria.

The ICBA also singled out First American International in Brooklyn, which focuses on Asian-American communities, as a top performer among institutions with between \$500 million and \$1 billion in assets.

New approaches

While some minority banks do well, "it's generally difficult for them to grow to a significant size, because they are a niche by definition," Loomis said.

They are also starting to face competition from mainstream banks, which are focusing programs and branches on individual ethnicities.

Lake Success-based Flushing Savings Bank has been building business among Korean-American populations on its way to amassing \$4.6 billion in assets, hiring more Korean-American employees and rolling out Korean marketing materials.

Back at Hanover, the new blood is working hard to find similar success among Garden City Park's Asian population. But executives and board members are also enlarging the bank's scope to cover other demographics.

Hanover's "got talent in terms of people running it," Loomis said, but the question remains: Can the broader scope save a one-branch bank that initially targeted such a limited market?

Puorro thinks it can.

"We intend to expand Hanover," Puorro said. "We're using the capital to fund our loan pipeline, and I'll be out shortly raising more capital."