Conscientious Capitalism:
Race, Culture and the Logic of Reinvestment at the Oldest African American Bank in
Los Angeles

A dissertation submitted in partial satisfaction of the requirements for the degree of Doctor of
Philosophy

in

Sociology

by

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2014
The Dissertation of Melody Y. Chiong is approved, and it is acceptable in quality and form for publication on microfilm and electronically:

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University of California, San Diego

2014
DEDICATION

For my parents—
Marvin and Selina Chiong
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<tr>
<td>African American Vernacular English</td>
<td>AAVE</td>
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<tr>
<td>Broadway Federal Bank</td>
<td>BFB</td>
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<tr>
<td>Consumer Financial Protection Bureau</td>
<td>CFPB</td>
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<tr>
<td>Chief Executive Officer</td>
<td>CEO</td>
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<td>Chief Loan Officer</td>
<td>CLO</td>
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<td>Civil Rights Movement</td>
<td>CRM</td>
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<td>Collateralized Debt Obligations</td>
<td>CDOs</td>
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<td>Community Development Banks</td>
<td>CDBs</td>
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<td>Community Development Financial Institutions</td>
<td>CDFIs</td>
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<td>Community Education Foundation</td>
<td>CEF</td>
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<td>Community Reinvestment Act</td>
<td>CRA</td>
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<td>Fair Isaac Corporation</td>
<td>FICO</td>
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<td>Federal Deposit Insurance Corporation</td>
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<td>Federal Housing Administration</td>
<td>FHA</td>
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<tr>
<td>Financial Institutions Reform, Recovery, and Enforcement Act of 1989</td>
<td>FIRREA</td>
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<tr>
<td>Government Sponsored Enterprise</td>
<td>GSE</td>
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<tr>
<td>Home Mortgage Disclosure Act</td>
<td>HMDA</td>
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<tr>
<td>Home Owners’ Loan Corporation</td>
<td>HOLC</td>
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<tr>
<td>Klu Klux Klan</td>
<td>KKK</td>
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<tr>
<td>Limited Liability Company</td>
<td>LLC</td>
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<tr>
<td>Los Angeles</td>
<td>LA</td>
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<td>Logic of Reinvestment</td>
<td>LOR</td>
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<tr>
<td>Los Angeles Public Library</td>
<td>LAPL</td>
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<tr>
<td>Los Angeles Realty Board</td>
<td>LARB</td>
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<tr>
<td>National Association of Real Estate Boards</td>
<td>NAERB</td>
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<td>National Association on the Advancement of Colored People</td>
<td>NAACP</td>
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<td>National Fair Housing Association</td>
<td>NFHA</td>
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<tr>
<td>Office of Thrift Supervision</td>
<td>OTS</td>
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<tr>
<td>Profit and Loss</td>
<td>PNL</td>
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<td>Qualified Mortgage</td>
<td>QM</td>
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<td>Real Estate Owned</td>
<td>REO</td>
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<td>Savings and Loan</td>
<td>S&amp;L</td>
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<tr>
<td>Small Business Association</td>
<td>SBA</td>
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<td>Southern Christian Leadership Conference</td>
<td>SCLC</td>
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<td>South Los Angeles</td>
<td>SLA</td>
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<td>Veterans Administration</td>
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<td>2014</td>
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ABSTRACT OF THE DISSERTATION

Conscientious Capitalism:
Race, Culture and the Logic of Reinvestment at the Oldest African American Bank in
Los Angeles

by

Melody Y. Chiong
Doctor of Philosophy in Sociology
University of California, San Diego, 2014

Professor Evan Ivans, Co-Chair
Professor Christena Turner, Co-Chair

Ethnic banks are banks that are owned, controlled and serve racial-ethnic minorities. Broadway Federal Bank (BFB) is an African American ethnic bank established in 1946 by community leaders in Los Angeles to provide financial opportunities to African Americans when mainstream banks refused to do so. The bank’s mission since its founding is to serve the community and to make a profit. While the bank’s dual mission remains largely unchanged in the post-Civil Rights Movement era, its strategies to continue to open opportunities to the South Los Angeles community has changed to accommodate the current prevalence of the colorblind rhetoric and the mechanized system of credit assessment the mainstream industry has adopted. What does race mean and what role(s) do race and culture play at BFB, the oldest and largest African American bank west of the Mississippi? How do race and culture play roles in the
economic calculations of risk and profit? Furthermore, how have generations of BFB actors been able to achieve the dual goals of profit and community?

My dissertation is a case study that shows how institutionalized racism functions at a financial institution and how people resist this. Using ethnographic methods and archival research, I argue that contrary to beliefs that racial considerations are aberrant in economic activities, race is an integral part of the daily decisions made in banking practices. Understanding the social construction of race at an ethnic bank is important because banks can offer financial opportunities that can shape the life chances of individuals who have access to them. I argue that the bank’s culture, which is based on what I call the logic of reinvestment, is central to understanding how BFB bankers have been able to achieve the often contradictory goals of profit and community. Specifically, I show how race and racial meanings play significant roles in banking activities by delving into the ways in which the meanings and roles of race have been incorporated into the strategies that simultaneously resist the mainstream industry’s biases against people of color and allow BFB actors to achieve the dual goals of profit and community.
They weren’t going to treat me like that and me take it laying down [sic]. After I slept on it, I decided it was the same soup warmed over. I mean, if once he got my money in there, he didn’t have to give me a job, he didn’t have to give me a loan, and he didn’t have to sell me any property, because he controlled it.

M. Earl Grant, co-founder of Broadway Federal Bank

I. Introduction

“My dad used to encourage me to always buy the land,” said M. Earl Grant, co-founder of Broadway Federal Bank (BFB), in an interview in 1966. In his seventies at the time, Grant explained how he came to help found the oldest and largest African American bank west of the Mississippi twenty years earlier. Three out of four of Grant’s grandparents were illiterate due to
the literacy laws imposed on slaves in the pre-bellum South and Grant himself only had a third grade education because he needed to work full time in order for his family to survive. Grant’s family was made up of fourteen members, all of whom worked for a West Virginia farmer who paid them a total of one dollar a day. Eventually, Grant made his way to Los Angeles (LA) and became one of the most successful African American entrepreneurs in the West. He owned not only one of the largest hog farms in California that sold up to ten thousand dollars worth of hogs a day, but a garbage collection business that by the 1940s moved 30 tons of trash a day (Drotning and South 1970:128-9). One day in the early 1940s, Grant noticed that a house across the street from the African Methodist Church was for sale and he decided that he would pay up to twenty seven hundred dollars for it so that he could fix it up and sell it. Even though the sellers were willing to sell for twenty five hundred dollars, the bank would not facilitate the sale of the property to him. The bankers explained to Grant and his wife that they could not help sell it to them because “it wouldn’t be fair to the white people on that side of the street.” The bankers told Grant that if they gave him a loan to purchase the house, not only would the white neighbors object, but it would “get them [the bankers] in trouble with the real estate brokers” (Drotning and South 1970:129).

The segregation of African Americans in the post-WWII era had led to a situation where a millionaire like Grant was confined to living in the dilapidated “black” areas of the city. This type of segregation in LA ensured that the color lines established not only marked the physical and social isolation of blacks, but their financial exclusion as well because mainstream banks did not provide loans to people of color. Feeling bitter, Grant decided to challenge the open and coordinated system real estate and banking professionals, federal agencies and private citizens used to prevent minorities from moving out of segregated areas. Grant explains:

I had my money in that bank [that refused to sell me the property], and practically every other Negro in Pasadena had their money in that bank, well, I was pretty sore, I made up my mind that the next morning I was going down and
draw my money out and put it in another bank. They weren’t going to treat me like that and me take it laying down [sic]. After I slept on it, I decided it was the same soup warmed over. I mean, if once he got my money in there, he didn’t have to give me a job, he didn’t have to give me a loan, and he didn’t have to sell me any property, because he controlled it. And that is the beginning of wondering what I should do about it now. I knew something about farming and hogs and I knew how to drive a truck for the rubbish business, but I just decided that you can do anything if you try hard enough…So then that was the beginning of the Broadway Federal Savings and Loan Association.

Collecting more than the $150,000 minimum required, Grant and other organizers opened Broadway Federal Savings and Loan Association (heretofore referred to as Broadway Federal Bank1 or BFB) to the public in 1947 in the heart of South Los Angeles (SLA) and remains in operation in the same community today (The Los Angeles Sentinel 1/9/47). With approximately $330 million in assets, 3 branch locations spread throughout SLA and a corporate office in the thriving commercial Wilshire District, BFB remains the oldest and largest African American bank west of the Mississippi. For more than half a century, it has provided financial services as well as professional training to those living in the historically marginalized community of SLA.

BFB was established in the long tradition of ethnic banks that provided financial services to racial and ethnic minorities in the U.S. According to historian Lila Ammons (1996), the idea of ethnic banks in the black community can be traced back to the pre-Civil War era. Ethnic banks—community banks owned, controlled and primarily serving co-ethnics—were established in racial and ethnic communities because mainstream banks largely excluded minorities from their financial services. However, since the passage of the Civil Rights Legislation of the 1960s, the mainstream financial industry has become more inclusive of minorities. Therefore, some may find it surprising that a small, race-based organization, such as an ethnic bank, can survive in a seemingly race-neutral and “objective” banking industry that favors large, globalized banks that only has one bottom line: profit. Despite its longstanding commitment to serving a population

1 Broadway Federal Savings and Loan changed its name to Broadway Federal Bank in 1996 when the bank became a publicly traded company.
that the mainstream industry finds too “risky” and unprofitable, this seemingly anachronistic community bank has remained in business for over 60 years—surviving both the banking industry’s “merger mania” of the 1980s and the 2007 subprime crisis that led to the downfall of some of the biggest banks in the nation. (Washington Mutual’s failure during the crisis was the largest bank failure in U.S. history.) As one of only two black banks left in L.A., how does this small community bank offer loans that keep charter schools, churches, and non-profit organizations open when no other bank would offer loans to these organizations? How do the agents working at BFB continue to operate despite the contradictory duals of making a profit and serving a marginalized community for over 60 years? Based on in-depth interviews and participatory observation, I primarily rely on ethnographic data to argue that ethnic bankers achieve these contradictory goals by relying on their bank culture to re-interpret the industry’s racially skewed assessment criteria in an attempt to provide opportunities to groups historically denied access to banking services.

How and why would social activists want to address racial inequalities through what I call financial activism at a bank? And what is the nature of the resistance strategies used by the BFB employees to achieve the dual goals of profit and community? My ethnography shows how and why a group of bankers at BFB reproduces a bank culture that allows them to achieve their dual mission of assisting the community and making a profit. I argue that the bankers at BFB rely on a culture I call the logic of reinvestment (LOR) to prioritize the welfare of the community and to increase opportunities to those who are marginalized by the mainstream. By analyzing the LOR at BFB, I will explain how BFB is similar and different today from when it began; how it has managed to remain profitable enough to survive sixty years of service; and why it has retained its character as an “activist” financial organization by serving a community that has long been marginalized by the mainstream industry.
The Tensions between Profit and Community: “Fundamentally Incompatible Objectives”

BFB’s mission has essentially remained the same: to provide financial services and career opportunities and training to the marginalized community members of SLA. Specifically, the BFB Mission Statement officially states:

The Bank’s mission is to serve the real estate, business and financial needs of customers in underserved urban communities with a commitment to excellent service, profitability and sustained growth. It also has a broader commitment to employ, train and mentor community residents, to contract for services with community businesses, and to encourage its management and staff to serve as volunteers in civic, community and religious organizations.²

And since its establishment, BFB has struggled with the inherent tensions in its mission: to expand opportunities to the underserved and make a profit doing so. Economist Andrew F. Brimmer captured the tensions between profit and community exemplified in BFB’s mission statement in his article, “The dilemma of black banking: Lending risks vs. community service” (1992). Brimmer explains what he calls the paradox of black banks: “The more they [black banks] try to meet the credit needs of the black community, the greater is the probability that their institutions will fail” (1992:5). Brimmer asserts that black-owned banks are more vulnerable to significant risks because their clients have higher than average rates of unstable employment and income. Furthermore, he argues that the disappearance of 33 of the 59 black banks established since 1963 was due to the “aggressive lending practices, which reflected bankers’ attempts to meet the credit needs of black consumers and black-owned businesses” (1992:6). Recent analyses of black banks reflect the same longstanding paradox of profit and community. (See for example, Trymaine Lee’s “Black-Owned Banks Struggle to Stay Out of the Red” (2011)).

Historically, many of BFB’s clients have fit the typical description of clients of black banks: they own black-owned businesses, which have higher rates of bankruptcy and/or they have unstable or untraditional forms of employment (i.e., jobs without W-2’s), which often make it

² www.broadwayfederalbank.com
more difficult for such clients to procure traditional loans from mainstream banks. Furthermore, BFB leaders converted BFB into a publically traded company in 1996 as a way to increase their capital. This resulted in the additional pressures BFB actors felt in producing a profit. As one BFB officer put it, BFB now had to “satisfy regulators and stockholders in the boardroom.” He continues, “Often times, the [service part of the] mission is diametrically opposed with profitability and what will maximize the returns to the shareholders.” Despite this BFB has been able to serve the community exceedingly well. For example, according to The Office of Thrift Supervision’s latest Community Reinvestment Act (CRA) assessment, BFB’s 1998 rating was “Outstanding.” BFB’s loans reflected the demographics of the area BFB serves. Roughly 39% of BFB’s loans were made to low and moderate-income borrowers. Moreover, approximately 84% of the bank’s loans were made in low and moderate income census tracts—greatly outperforming the 1998 HMDA Aggregate of 15%. BFB also invested a total of $6.7 million in community development lending, which went to loans for affordable housing rehabilitation, construction and financing of multi-family loans serving low and moderate-income tenants. (A quarter of all the multi-family loans funded buildings that housed low and moderate-income tenants.) In sum, BFB seems to be able to escape the dilemma Brimmer discusses. But how has it been able to do this?

As Dymski, Li and others (2007, 2004, 2002, 2001) reveal in their studies, ethnic bankers are particularly adept in using social capital for additional information that mitigates risk. I argue that BFB is able to survive over 60 years of service and surmount what Brimmer calls the “fundamentally incompatible objectives” of profit and community because they have learned to re-interpret the definition of risk and they have developed a bank culture that cultivates strong networks with the community so as to facilitate the social capital and increase trust to help ameliorate some risks. Specifically, I argue that BFB bankers engage in what I call financial activism, a resistance to the dynamics of the mainstream financial industry in order to prioritize
the needs of the community. The BFB bankers’ financial activism involves their decision to strategically embed itself in the community in order to sustain and grow these relationships that provide them with knowledge and social ties that mitigate risk. BFB’s work in providing the underserved financial opportunities is an act of financial activism because BFB bankers have to reject some of the established banking norms in order to accomplish their goals. To this end, the bank itself becomes more than just a financial institution that is only concerned with making a profit: it is a community-based organization that is concerned with the welfare of community members and their future. Therefore, although Brimmer’s assessment that black banks do not serve as “engines of growth” may be true, I show that they nevertheless serve important roles in keeping the community stable—if not financially, but by serving as a hub for social and cultural activities that facilitate social capital and trust in the community.

The discussion of the bankers’ strategies can only be understood in the context of the coupling of race and space because the financial welfare of the bank’s client base is intimately tied to the economic opportunities in the community. As captured in the vignette at the beginning of this chapter, racial segregation was the norm in the mid-1940s when the bank was established. George Lipsitz (2011) asserts that groups respond to segregation with a black spatial imaginary, an imaginary based on notions of democracy and justice. BFB, as an ethnic bank responding to spatial, social and financial isolation, has a bank culture that facilitates the staff’s and management’s decisions to keep the welfare of the community a priority when pursuing financial profits. It is this process of resisting the mainstream industry’s culture and norms that I document and analyze in this dissertation.

II. The Social Construction of Financial Vulnerability: Segregation and the Historic Coupling of Race and Space in South Los Angeles

As Jesus Hernandez argues in “Race, Market Constraints and the Housing Crisis” (2012), the financial vulnerability of minorities is rooted in the ways in which our society has been
organized, usually by dominant groups who shape decisions and institutions. Neighborhoods are formed not by “free market” forces, but by the “intentional manipulation by powerful actors” (Hernandez 2012:17). For African Americans, the coupling of race and space can be seen as early as in the days of slavery where there were clearly demarcated slave quarters (Lipsitz 2011). Especially in the antebellum South, the particular racialization of space took the form of Jim Crow post-emancipation, where the separation of blacks and whites was enforced with intimidation, imprisonment, and lynching. In the West, Jim Crow took form in a different manner where legal and institutional maneuvers (e.g., racial covenants) were used to ensure residential segregation.

South Los Angeles, formerly known as “South Central,” is an area that originally referred to the black community segregated along the South Central Avenue in the mid-20th century. As the black community spread out into other areas southwest and southeast of downtown Los Angeles, the name “South Central” went along with these residents. According to the 2010 Census Bureau, the two core cities within SLA, Inglewood and Compton, have a median household income of $43,331 and 21% of the population lives under the poverty line. The per capita income of residents of Compton ($13,542) is only 46% of the average Californian resident ($29,188). African Americans make up 38% of the population, a dramatic drop since 1980 when blacks comprised of 65% of the population. (Meanwhile the Latino population continued to grow; in the same period of time, the Latino population increased from roughly 17% to 58%). This area has long been burdened with the notoriety of being a violent, drug, gang and crime-ridden place due to the images from movies, music and imprecise news reporting that

3 To combat the notoriety that South Central has gained from movies, music and news reports focusing on the violence, drugs, gangs and crime, in 2003 the Los Angeles City Council unanimously voted to change the name “South-Central Los Angeles” to “South Los Angeles” (Gold and Braxton 2003).

4 Because South Central is both a geographic and cultural definition, it is difficult to clearly define its boundaries. For the purposes of this study, the SLA areas consist of the three core cities of Compton, Inglewood and Carson and the two surrounding cities of Torrance and Gardena.
lumps crime stories into an amorphous “South Central” label.

While most of the attention in the media and Hollywood seem to focus on the notorious stories associated with the area, few pay attention to root causes of such stories: the history of segregation and the coupling of race and space. The segregation of blacks and minorities in undesirable, urban areas of the city and the divestment of such areas has crippled the opportunities for such groups to move up the economic ladder—while the concomitant public funding of suburban areas has continued to shield the mainstream from such concerns (See George Lipsitz 1998). As mentioned above, the coupling of race and space created a situation where the flow of credit stopped at the colorline as well. Prior to the Civil Rights Movement of the 1960s, African Americans, regardless of their wealth, were not able to obtain loans. Some mainstream banks allowed minorities to deposit money, but did provide them with loans\(^5\). The banking industry relied on a type of relationship banking commonly referred to as the “5 C’s of credit” to assess a borrower: character, capital, capacity, collateral, and conditions.\(^6\) But as Grant’s story at the beginning of the chapter illustrates, there were clearly two standards mainstream banks were applying—one for whites and one for nonwhites. The standards for nonwhites included an additional “C”. That “6\(^{th}\) C” was color. For whites, they would be assessed by the 5 C’s, but for nonwhites, they were turned down for loans regardless of their “5 C’s” because they were the wrong color. Grant would have been seen as a very good borrower based on the “5 C’s of credit” assessment method: in addition to being a millionaire owning two

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\(^5\) In fact, the Community Reinvestment Act of 1977 was passed as a response to thrift (savings and loans associations) and commercial banks’ “redlining” or systemic denial of credit to low-income and minority areas even though these financial institutions took deposits from these areas (Hernandez 2012: 168, 212). See also John R. Dominguez (1976)’s *Capital Flows in Minority Areas* (Lexington Books, Lexington, MA).

\(^6\) Character refers to the client’s reputation. Capital refers to the money the client will put toward the potential investment; the more capital (and personal risk) the client has, the lower the risk of the investment for the bank. Capacity compares incomes against recurrinc debt and measures the borrower's ability to repay a loan. The collateral are the guarantees (i.e. property or large assets) the potential clients provide to secure the loan. The conditions of the loan refer to factors such as the interest rate and amount of principal that help structure the loan package.
large businesses, Grant was the first black man to be invited to join the California Hog Farmers’ Association. But access to home mortgages was an effective way to enforce segregation. The bankers’ fear of whites boycotting their bank was real as it was one of many tactics of intimidation—including mob violence—that some whites used to keep people of color out of “white” neighborhoods. Therefore, Grant’s story shows us how “creditworthiness” does not necessarily reflect seemingly objective measures of creditworthiness, but is often a reflection of the coupling of race and space, which is itself a product of subjective values (See Guy Stuart 2003).

In fact, the birth of the mortgage industry highlights such subjectivities and the role of government in segregation and racial discrimination. In the 1930s during the Great Depression, the federal agencies of the Home Owners’ Loan Corporation (HOLC) and Federal Housing Administration (FHA), were created to help working class households accumulate wealth through federally insured deposits and affordable mortgage programs. These federal agencies did so by also ensuring that racial and ethnic minorities were not part of those who benefited through the systems they instituted by “redlining,” or the practice of deeming communities that were not homogeneously white too risky for loans (Sanchez 2007). Segregation became systemic and institutionalized in the 20th century beginning with a series of court cases that condoned the use of racially restrictive covenants. Used in combination with redlining, real estate professional organizations also used racially restrictive covenants that prohibited the selling of property to nonwhites to segregate minorities from the largely Anglo mainstream. Therefore, the definition of “creditworthiness,” like strategies of race covenants, redlining, violence and intimidation were used to create and maintain segregation. In Los Angeles, Grant and others managed to make money, but they still could not purchase property outside “minority” areas or move out of dilapidated areas. For leaders like Grant, the ability to own property was the difference between drinking the “same soup warmed over” and having some control over their own life chances.
Establishing a black bank was both a pragmatic and idealistic step toward securing civil rights—they would share their collective resources to help African Americans achieve the American Dream of homeownership and hope that their group’s economic assimilation would result in acceptance by the white mainstream as full citizens.

The Continued Financial Marginalization of Minorities in the Inner City: The Legacy of the Coupling of Race and Space and the Role of the Mainstream Banking Industry

Banks can play important roles in a community because they control the flow of capital; and with capital people can use credit to buy homes or to create jobs at their businesses (See Dymski and Veitch 1996). But banks’ withdrawal of financial resources, or divestment, from a community can have reverberating consequences for decades. As seen above, the banking industry’s divestment of an urban area can take the form of redlining as it did in the pre-Civil Rights Movement (CRM) era. In the post-CRM era, divestment mainly took the form of bank branch closures and the systematic and uneven distribution of financial opportunities to different racial and ethnic groups living in the inner city. The creation of the inner city as an impoverished urban area in the U.S. can be traced to longstanding segregation of racial and ethnic minorities in undesirable, overcrowded and dilapidated areas (Dymski 2009a; Squires 2003; Massey and Denton 1993; Wacquant and Wilson 1989). However, the sharp demographic, economic and political shifts beginning in the 1950s cemented city areas as the impoverished urban “ghettos” we know today. Before the 1950s, most urban areas in the U.S. had areas with white residents (See Dymski 2009a). But in the post-WWII economic boom, newly built suburbs offered white residents affordable mortgages to new homes. As Lipsitz (1998) describes, much of the subsidies and investments into communities went into the newly built suburban areas designated for whites. This, coupled with the increasing mobility of minorities outside segregated areas resulted in

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7 In American Apartheid: Segregation and the Making of the Underclass (1993), Massey and Denton argue that the concentration of African Americans is so severe that they are hypersegregated.
“white flight” from the urban areas. Furthermore, deindustrialization resulted in the “hollowing out” (Dymski 2009a:8) of the country’s industrial structure in the 1970s and 1980s, a shift that disproportionately damaged the inner-city.

The recession in the 1980s accelerated the bank branch closures that was part of the restructuring strategy the mainstream banks were using in response to the deregulation, intense competition, consolidation and advancements in technology that started in the 1970s (Pollard 1996). The banking industry’s new strategy included a focus on the economy of scales model and the centralization of branches that reduced branches from relatively autonomous mini-banks to sales outlets with little authority in the decision-making process (Pollard 1996). This shift had two major consequences especially for racial and ethnic minorities—as well as other marginalized groups in the banking industry, such as women. First, many banks and thrifts closed; the ones that survived closed branches and laid-off workers (Dymski 2009a:9). The wide-scale bank branch closures disproportionately affected lower income and high minority areas and therefore further reduced the financial services available to the residents of these areas (Dymski and Veitch 1996; Pollard 1996). Second, the centralization of loan processing caused the further veiling of the role(s) of race and racism in the industry because it meant the increasing reliance on the usage of standardized data. The confluence of the trends of deregulation, consolidation and technological advances allowed the banking industry to shift from using relationship banking (i.e., the “5 C’s”) to mechanized credit score banking, which is based on “hard” information, such as statistical data (Holmes et al. 2007, Stuart 2003). For example, the industry’s credit giants came up with the FICO score, which reduced a person’s entire credit history to a number and later, the industry came to rely on the automated underwriting system, a system that supposedly determines a loan applicant’s risk of default by the “objective” calculations of numbers—numbers such as the applicants income, etc.

In *Discriminating Risk*, Guy Stuart (2003) shows how this trend of increasing reliance on
“hard” information further shaped the consolidation of the appraisal, credit and home mortgage industries. The trends of deregulation of banks, the banking industry’s merger and acquisition mania in the latter decades of the 20th century, and the rise of the government sponsored enterprises’ (GSE) (Fannie Mae and Freddie Mac) dominance in the secondary home mortgage market, went hand-in-hand with the financial industry’s increasing reliance on technology and the subsequent mechanization of credit scoring. As the financial community became increasingly complex and consolidated, the need for uniformity (i.e., the collection and reliance on “hard” information) to make transactions more efficient became increasingly paramount until the many facets of the financial community came to adopt similar definitions, rules and systems (Stuart 2003). However, although standardized data has an image of neutrality, it in fact, embodies racially biased information through the way it was collected and the meanings attached to such data.

Before the passage of civil rights legislation and judicial rulings, the intense racial segregation made class, racial and spatial inequalities into one. If someone was African American, it would automatically mean that she lived in the “black” areas of the city and she would have been treated as if she did not have much money even if she did because most mainstream stores would not welcome black customers. In the post-CRM era, these three forms of inequality began to decouple and this made it more difficult to identify how different types of discrimination accounted for disparities. Perhaps the most evident example of the decoupling of class, racial and spatial inequalities is seen in the transformation of the lending industry. Two broad trends in the 20th century seemingly should have eliminated racial disparities in the financial industry: the series of anti-discriminatory Civil Rights legislation and the increasing mechanization of credit scoring. For example, the Equal Credit Opportunity Act of 1974 which prohibited creditors such as banks to discriminate on the basis of race should have eliminated racial discrimination. Ironically, these two trends in part made proving the existence of racial
discrimination more difficult. In other words, even though these two trends were partly successful in lessening discrimination, they also made research identifying discrimination, or specifically, the role of race and ethnicity in financial decisions, such as in the credit and mortgage markets, more challenging because people could no longer openly discriminate and the existence of anti-discrimination legislation leads people to believe that just because it is outlawed, then racism does not exist. In sum, the shifts in technology, consolidation, mechanization and the diminishing of explicit forms of racism ushered in the claims that race no longer mattered in a “meritocratic” nation. This inadvertently reinforced the theme of “colorblindness” in the post-CRM era. As we see throughout the dissertation, this uncoupling of the three forms of inequality made BFB’s mission more difficult as it had to contend with more combinations of how people are marginalized, as well as justify remaining a “race-based” organization in a society that believes racism has already been eliminated.

**Continued Discrimination in the Post-Civil Rights Movement Era: Statistics**

Although the blatant strategies of segregation such as the use of racial covenants have been deemed unlawful, people of color continue to be financially marginalized through overt and subtle means in the post-CRM era. In How Racism Takes Place (2011), Lipsitz presents a powerful argument documenting the important roles of banks in creating and maintaining inequality against people of color. As Lipsitz (2011) argues, segregation has channeled:

> [P]eople of different races to different sectors of the banking industry. For example, mainstream banks tend to open branches in suburbs, leaving inner-city residents without access to basic banking services such as savings and checking accounts, certificates of deposits or prime rate mortgage loans. According to the Federal Deposit Insurance Corporation (FDIC) (2012), over 21.4 percent of African American families do not have bank accounts. Instead, because of the divestment of their communities, inner-city residents turn to non-banking institutions such payday lenders, pawn shops and check-cashing businesses that charge excessive fees—sometimes at an annual rate of 400 to 1,000 percent. (8)

He argues that race, rather than class and creditworthiness, is often the deciding factor on where bank branches get placed and which ones get closed. This trend also proves true for determining
who got subprime mortgages*: according to the Center for Responsible Lending, in 2002 high-income African Americans were three times more likely to be subjected to subprime terms as low-income whites (as cited in Lipsitz 2011:9). HMDA reports have consistently shown that even when controlling for income, black and Latino applicants have been denied mortgage loans at a higher rate than white applicants (Hunter and Walker 1996:59). Moreover, even when controlling for credit history, debt levels and income, people of color pay higher rates for home mortgages (Lipsitz 2011:11). Not only do mortgage lenders require more credit checks and more documentation of black applicants than white applicants, but according to Lipsitz (2011), “Whites face less restrictive qualification standards, receive more advice than Blacks about creative financing options, and routinely secure loans with lower escrow and reserve account contributions. Minority applicants also face more obstacles to securing loans for improving existing dwellings” (11). Lipsitz (2011) also cites Feagin’s work to explain how employment discrimination leads to systematic discrimination against people of color in the mainstream banking and mortgage lenders. Feagin’s (2000) research shows that an increase in Black administrators and officers led to higher approval rates for Black loan applicants (Lipsitz 2011:11-12). In sum, it is clear that business men and women still consider race in making financial decisions: relying on their own personal biases (or counting on the racial biases of others), in deciding where to locate (or close) bank branches and/or how to treat loan applications.

III. Institutional Responses to Divestment

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* See also Gary Dymski’s “Racial Exclusion and the Political Economy of the Subprime Crisis,” (Historical Materialism 17(2), 2009b, pp. 149-179) and “The Global Crisis and the Governance of Power in Finance” (2012) (Pluto Journals, pp. 581-602); as well as Jesus Hernandez’s “Race, Market Constraints and the Housing Crisis: Critical Links to Segregation and Mortgage Redlining in Sacramento” (2012) to see how previous patterns of segregation and financial exclusion made communities of color more susceptible to subprime mortgages. These patterns (in addition to the predatory actions of professionals) and the deregulation of the financial markets led to the subprime crisis that began in 2007.
Embeddedness, Race and Common Sense: The Importance of Culture and Trust in Resisting Marginality in Economic Organizations

Despite the anti-discrimination legislation put in place and the mechanization of credit assessment method in the post-CRM era, race (and racial biases) had become embedded in financial industries through the historic coupling of race and space in residential areas (Lipsitz 2011; Haynes and Hernandez 2008; Sanchez 2007; Hernandez 2012; Stuart 2003). In order to resist the inherent racial biases found in these financial industries, I show that the BFB staff chooses to rely on their bank culture to build trust and reduce delinquency instead of completely relying on the calculated probabilities provided by the disembedded financial industry.

The concept of embeddedness is the idea that every economic decision is shaped by a social context or social ties (Granovetter 1973). As Leyshon and Thrift put it, embeddedness is the “inevitable mixing of social and economic relations” (1996:1153). Social scientists have used the notion of embeddedness in two main ways: 1) to describe the way in which race is inherently a part of economic decisions and institutions (Lipsitz 1998, 2011; Stuart; Hernandez 2012; Roithmayr 2007) or 2) in a more general way, to indicate the degree to which substantive social relationships shape economic transactions (Guseva and Rona-Tas 2001; Ferrary 2002; Granovetter 1973).

In the first way, the concept of embeddedness allows us to see how race is embedded into the increasingly mechanized and seemingly objective financial industry without ever being seen as “race”—thereby producing racial outcomes even in the post-CRM era where overt acts of racism are prohibited. For example, as mentioned above, Stuart’s (2003) work shows how racial

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9 For the purposes of this paper, I refer to the Civil Rights Movement era as the 1960s in which the mass movement of minorities were able to acquire state reforms (i.e. the Civil Rights legislation of 1964 and 1965). The post-Civil Rights Movement refers to the period after the 1960s when “counter-reformers” of the 1970s and 1980s sought to redefine or reverse the racial definitions and meanings successfully advocated by Civil Rights reformers. (See Omi and Winant (1986:91) for more.)
biases have been embedded in the institutional framework of the mortgage and financial industries. He argues that subjective values, such as the valuing of racial homogeneity in a neighborhood, have been embedded into the fabric of the real estate and lending industries. In other words, Stuart shows how “subjectivity” could seep into the lending industry’s seemingly “objective” disembedded and mechanized model of credit evaluation. The work in this literature show how the dual processes of the coupling of race and space and the embedding of race in financial institutions have largely locked-in disadvantages for certain groups. (See also Roithmayr’s (2007) work on the “racial cartels,” where she describes how certain racial groups monopolize the market to garner privileges and profits in the housing market.) The concept of embeddedness highlights how race and racism operate in the post-CRM era and specifically, how racism seems to function without racists due to the racialized structure of the industry. (See Bonilla-Silva’s *Racism without Racists* (2007).) By combining this literature to Gramsci’s (1971:182) notion of “common sense,” I argue that it easy to see how the status quo in the financial industry of marginalizing SLA residents prevails. This is because the “common sense” feeling of such subjective values makes such ideological imperative invisible and unquestioned even though it has helped perpetuate racial segregation. By understanding the persistent role of race in this way, we can begin to understand why and how BFB bankers have used the LOR in attempt to fulfill the needs of the underserved.

In the second way of using embeddedness, theorists focus on the nature, depth and quality of social relationships used in fulfilling economic transactions. For example, in his seminal work on embeddedness, “The Strength of Weak Ties (1973),” Mark Granovetter shows how individuals are more likely to find employment through their outer network of acquaintances (that produces weak ties), rather than through their strong ties, which are produced by an inner
network of friends. Alya Guseva and Akos Rona-Tas’s (2001) study, “Uncertainty, Risk and Trust: Russian and American Credit Card Markets Compared” is an apt example of how this tradition of understanding embeddedness has been applied to financial institutions. In it, they describe the U.S. financial industry as disembedded because of its lack of reliance on social relationships in determining economic decisions. Instead, the U.S. financial industry relies on the calculations of risk since they have the institutional structure to translate uncertainty to statistical outcomes based on mechanized assessments such as FICO scores. Russia’s nascent credit card industry lacks this institutional support and therefore cannot “reduce uncertainty into calculable risk” (Guseva and Rona-Tas 2001:638). Therefore, Russian credit card companies rely on a strategy of embeddedness by building social networks and trust to reduce delinquency. But contrary to the Russian credit card’s obligatory use of the strategy of embeddedness, as we will see below, even though BFB is in the U.S.’s disembedded market that allows them to reduce their uncertainty into calculable risk, they strategically choose not to and instead rely on trust to reduce their delinquency in order to achieve their dual goals of profit and community. This is because the disembedding process further makes the inequalities created by the coupling of race and space invisible (Stuart 2003) and in order to resist this, BFB staff choose to redefine the mainstream’s definition of risk into uncertainty to make their own judgment of which transactions are too “risky” and which are not. In sum, just as Guseva and Rona-Tas show that the calculation of probabilities is not an innate human ability, but a social capacity that is enabled by institutional arrangements, so is BFB’s strategic embeddedness. This dissertation shows that the LOR requires bankers to learn how to trust and how to use that trust. The LOR and its inculcation is a social product and is only enabled by strong leadership that endorses such as model.

Granovetter measured the strength of a tie by how often a person saw another person: “often” (at least once a week); “occasionally” (more than once a year, but less than twice a week); and “rarely” (once a year or less).
Alternative Institutions to Resist Financial Exclusion: Ethnic Banks\textsuperscript{11} as a Type of Community Development Bank

In response to the mainstream financial institutions’ exclusion of certain groups, some activists have chosen to apply pressure to the financial system from the outside, such as the urban movement led by activists such as Gail Cincotta. Others have tried another tactic: to resist from within the industry. In “Financial exclusion and the shifting boundaries of the financial system” Andrew Leyshon and Nigel Thrift (1996) highlight four ways in which people have organized financial institutions to respond to divestment by the mainstream banking industry. Gunn and Gunn (1991) call these “alternative institutions of accumulation”: 1) credit unions, 2) local exchange and trading systems, 3) rotating savings and credit associations, and 4) community development banks (CDBs). Since the 1970s, community development banking (CDB) has been gaining popularity in the U.S. to combat poverty in divested areas to help revitalize financially and “socially-excluded areas” (Dymski 2009a:2). One famous example of a CDB is South Shore Bank (or ShoreBank), which was successful in reversing the divestment of a declining Chicago neighborhood. ShoreBank was cited as being an inspiration to a congressional bill (the Reigle Community Development and Regulatory Improvement Act of 1994) sponsored by President Bill Clinton to create community development financial institutions (CDFIs) \textsuperscript{12}, which provide a particular portion of their loans to underserved communities and in return receive special tax breaks and have access to special funds. The bankers at ShoreBank reversed the trend of

\textsuperscript{11} Following Dymski and Li’s (2004:219-220) definitions, the term ethnic banks can refer to both the U.S. based minority-owned banks issued by the FDIC and the foreign banks that are headquartered in foreign countries, owned by foreign nationals and have branches or subsidiaries operating in the U.S. Such foreign national ethnic banks include Sanwa Bank (headquartered in Japan) and Bank of China (headquartered in China). There is a wide range of ethnic banks in terms of their mission, ownership and business strategies. However, for the purposes of this paper, I am referring to the American-based ethnic banks when I use the term ethnic bank unless specified.

\textsuperscript{12} For more on CDFIs, see Appleyard, L. (2011), ‘Community Development Finance Institutions (CDFIs): Geographies of Financial Inclusion in the US and the UK’. \textit{Geoforum}, 42(2) 250-258.
divestment by “greenlining”—or strategically harnessing external capital through grants, funds and deposits from outside the community and providing capital to local residents who have been redlined by mainstream banks. But long before the passage of the Reigle Act and the creation of the CDB category, ethnic banks have been organized—many with a dual bottom line model that CDBs use. Therefore, ethnic banks can be seen as a special type of CDB. Ethnic banks\textsuperscript{13} operate with an overt acknowledgment of race, racial identity and of the particular treatment of minorities in U.S. history. On an institutional level, ethnic banks are a particular type of community development banks because most have an additional designation of being a minority-owned bank.\textsuperscript{14} On a social level, ethnic banks are special because they are rooted in what George Lipsitz (2012) calls the culture of resistance, a culture that people of color engage in when they are struggling to find justice in their segregated environment.

**History of Ethnic Banking in the United States**

Ethnic banking is an example of what Omi and Winant (1986) call “strategic essentialism” because it describes a situation where members of a subordinated racial group band

\textsuperscript{13} The term ethnic banks can refer to both the U.S. based minority-owned banks issued by the FDIC and foreign banks that are owned by foreign nationals and have branches or subsidiaries operating in the U.S. In following Li and Dymski’s (2007:7-8) categorization of ethnic banks, I define ethnic banks that offer FDIC-insured deposits and are either owned and/or controlled by American or overseas foreign national ethnic minorities as “domestic ethnic banks” since they are U.S.-chartered and U.S.-regulated domestic banks. Ethnic banks that are foreign bank offices or outposts for overseas banks are defined as “foreign ethnic banks”—even though they are subject to U.S. regulations. Therefore, there is a wide range of ethnic banks in terms of their mission, ownership and business strategies. For the purposes of this dissertation, unless specified, I am referring to “domestic ethnic banks” when I write about ethnic banks.

\textsuperscript{14} Minority-owned banks are banks issued by the FDIC and have at least 51\% of their stocks owned by minorities. Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (“FIRREA”) defines a minority depository institution as “any Federally insured depository institution where 51 percent or more of the voting stock is owned by one or more ‘socially and economically disadvantaged individuals’” (\url{http://www.fdic.gov/regulations/resources/minority/sop5-only.PDF}). This act defined minority as African American, Asian American, Latino or Native American. But women have also been considered “socially and economically disadvantaged” and therefore, banks owned and/or controlled by women have also been accepted in the minority depository program. For more, see \url{http://www.fdic.gov/regulations/resources/minority/MDI_Definition.html}.
together to better their lives in face of racist practices (72). Prior to 1980, most of the ethnic banks in the U.S. were primarily owned by African Americans and Native Americans. However, during the 1980s, the rapid exchange and migration of goods and people associated with globalization prompted the second wave of mostly Asian and Latino ethnic banks (Li et al. 2001:1924). (At the same time, the African American banks in SLA fared a different fate as they steadily decreased in numbers.) Since then the number of ethnic banks in the U.S. has nearly doubled to 107 minority-owned banks with approximately $39 billion in assets and $31 billion deposits (March 2012 FDIC website).\footnote{There was a significant decrease in the assets and deposits of minority-owned banks from 2006 to 2007. From December 2006 to December 2007, the total assets had dropped from $82 billion to $42 billion and the total deposits dropped from $60 billion to $31 billion. Furthermore, prior to the subprime crisis in 2007, there were 44 “black-owned banks”. (This means that African Americans held at least 51% of these banks’ voting stock.) And there were 3 black banks that had minority board of directors and focused on the needs of the black community. These banks had $6 billion in assets. (Gerena 2007; http://www.federalreserve.gov/releases/mob/)} Twenty-six of these banks were black banks; 41 were Asian American; 15 Latino and 7 were owned by Caucasian women.

According to historian Lila Ammons (1996), black leaders in the North discussed starting a black bank in 1851, but difficulties associated with pooling together the limited resources of free blacks and the distractions of the Civil War thwarted the plans (Ammons 1996; Gerena 2007). The first African American bank was established in Virginia in 1888 when Jim Crow laws were firmly established. (Before then, African Americans relied on black churches, fraternal organizations and benevolent societies as a way to pool their resources.) In an effort to gain an economic footing under Jim Crow laws, African Americans established over 130 banks mostly in the South from the end of the Reconstruction era to the beginning of the Great Depression. Most of these banks were established in the South because roughly 90% of blacks lived there. But by the 1930s, there were only 9 black-owned banks left and only five were established from 1934-1951 (Gerena 2007:48). Gaining its charter in 1946, BFB was one of the five.

There was a resurgence of black banks in the 1970s in part due to the Nixon
Administration’s advocacy of “black capitalism.” As a result of two of Nixon’s executive orders, the federal Minority Bank Deposit Program was created to encourage public and private organizations to support minority-owned banks and the Comptroller of the Currency encouraged the proliferation of bank charters to African Americans (Gerena 2007; Price 1990). Between 1963 and 1988, 59 black banks were established in the nation (16 were established during Nixon’s administration (1972-1978)), but thirty-three had failed by 1989 (Brimmer 1992:5-6). Despite the resurgence of black banks in the 1970s, since the 1960s, black banks represented an endangered type of institution: they disappeared faster than any other type of banks in the nation, with the slowest growth and smallest market shares (Brimmer 1992:11). In the mid-1980s, black banks were declining 1.4 times faster and its assets were growing at a rate was roughly 70% of the banking industry as a whole (Brimmer 1992:12-13).

Brimmer (1992) asserts that the vulnerabilities of black banks can be broken down to how they raise their assets and how they make loans. Looking at the cohort of black banks from 1963-1988, Brimmer shows that black banks generally have riskier methods of asset building: they hold larger proportions of investment securities; hold more short-term money market; and have fewer loans as assets (Brimmer 1992:14). All of these features, Brimmer argues, “are a mirror of the greater risks of lending faced by black banks” (1992:14). He concludes, “because of the greater risks faced by black banks, they have come to operate in a markedly conservative fashion. The pattern is reflected in both the failure rates among them and the risk-avoidance structure of their balance sheets” (Brimmer 1992:14).

However, on the loan side, Brimmer argues that black-owned banks are particularly

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16 Brimmer argues that there were two main reasons for the insolvencies faced by black banks during that 26 year period: 1) the high transfer rates and the subsequent recession that followed (1979-1982) and 2) bank regulators’ requirement of more stringent policies on loan losses and capital standards (1985-1988) (1992:10).

17 From 1983 to 1989, the number of black banks fell 22% and the remaining banks’ asset growth only increased to $23 million (14%), while the aggregate asset growth for mainstream banks was roughly $1 trillion (38%) (Price 1990:2).
risky, often with a higher proportion of loans as assets and in particular, commercial and industrial loans, as well as construction and land development loans (1992:17). Furthermore, like any other small bank, black banks rely heavily on deposits as a source of funding. But because black banks often operate in impoverished communities that have high rates of unemployment and have clientele who earn lower incomes, relying on deposits becomes an additional vulnerability (Brimmer 1992:16). This is not only because the clients often deposit smaller amounts, but they also transfer these deposits out quickly (because they have smaller amounts of savings and are spending much of what they deposit) thereby causing black banks’ need for more liquid assets to cover such withdrawals (Gerena 2007). Furthermore, black banks are often less profitable because the high number of transactions cost the banks money. Therefore, black banks often keep more liquid assets invested in vehicles such as U.S. government bonds that yield lower rates than others such as corporate bonds or loans (Gerena 2007). With more invested in liquid assets, black banks invest less in loans. Loans from black banks also often yield lower returns and more uncertainty. Therefore, it is difficult for them to be profitable (Gerena 2007). Furthermore, with the passage of the Community Reinvestment Act in 1977 that encouraged mainstream banks to lend to low and moderate income communities, the competition generated by this diluted the relevance and “captive” market power of black banks. Dymski and Mohanty’s (1999) groundbreaking study on ethnic banking in Los Angeles revealed that there were only 3 African American ethnic banks in the entire region of South Los Angeles (Dymski and Mohanty 1999:363). In fact, they found that when considering all bank branches (ethnic and non-ethnic) in the three core cities of South Los Angeles, there are only 1.8 financial offices per 100,000 residents (Dymski and Mohanty 1999:363). When I started my research in the early 2000s, BFB was only one of two black banks left in Los Angeles.
IV. Theoretical and Empirical Contributions

Ethnic Banks as Ideal Research Sites to Understand the Construction of Race and Its Role in Economic Activities and Inequality

Contrary to the notion that banks are faceless and neutral institutions, this study shows how an ethnic bank operates under subjective and racially biased notions that are part of the mainstream industry’s norm and how bankers can resist such norms. Ethnic banks are ideal sites to explore the construction of race and investigate its role in economic decisions such as the logics and practices employed by bankers because issues of race and economics converge at the forefront of banks such as Broadway. This is because historically ethnic banks were organized by community leaders to assist co-ethnics gain a financial footing because they were marginalized by mainstream financial organizations. In addition to being an important institution in influencing people’s life chances, as Bonilla-Silva (1997) argues, race should be seen as a systemic production. Therefore, according to Bonilla-Silva, an institution such as bank is more reliable indication of race and racism because of the nature of the institution. Rather than studying people’s personal and psychological opinions on racism and stereotypes, my research on Broadway provides substantive archival and in-depth interviews on how race and racism works. In other words, my study focuses on the structural component of racism to show how racism can exist with or without racists. Moreover, an ethnic bank is a perfect site to study the reproduction of racial inequality because as Pierre Bourdieu asserts, in order to truly understand the reproduction of inequality, we must look at the social and cultural aspects of capital as well as the economic aspects. Research has shown that ethnic banks rely heavily on social capital to function smoothly (see below for more) and as mentioned above, other forms of capital are readily seen in

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18 Critiquing the notion of a color blind society, Bonilla-Silva (1997) attempts to explain how racism can exist without racists. Bonilla-Silva argues that race ideology is coded into the structure. Institutions and structures are racial systems that have racial ideology embedded in it, but can operate with direct racial terminology. Therefore, race can be invisible to many Americans.
ethnic banks as well, thus making ethnic banks perfect sites to study the roles and meanings of race and inequality.

**Placing Race in Banking Practices: The Neglect of Race in the Race and Ethnicity Literature**

My research will provide a unique window into the privacy-protected world of ethnic banking. Due to issues of confidentiality, few researchers have been allowed into the world of banking in general. But an ethnography that offers empirical data on the intersection of race, culture and economics at an ethnic bank is even rarer. Historians and social scientists have traditionally overlooked ethnic banks as topics of study. However, as mentioned above, some researchers have revealed ways in which ethnic banks are vulnerable in the industry due to the historic and current ways in which minorities are marginalized in the mainstream financial industry (Price 1990; Brimmer 1992; Gerena 2007; Lee 2011). Furthermore, several economists have examined the efficiency of African American banks, but they neglect the social and cultural aspects of ethnic banks19 (Bates 1978, Bradford 1988, Brimmer 1992, Black et al. 1997, Henderson 1999, Butler 2005). A multi-disciplinary group of economists (Dymski 1999, Dymski and Li 2003, 2004), geographers (Li 1997, Zhou 1998) and urban planners (Zonta 2004) have more recently looked at ethnic banking with some promising results. For example, current research show ethnic banks as some of the last bastion of financial institutions available to underserved communities (Dymski and Mohanty 1999; Pollard 1996; Dymski and Veitch 1996; Pattillo-McCoy 1999); how social capital facilitates ethnic banking transactions in ethnic communities (Li et al. 2001); or how ethnic banks are symbolic of how transnational capital can

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19 The main debate surrounds the efficiency of black banks; some argue inefficiency is due to individual incompetence while others blame structural constraints. The most current research shows that black banks are less efficient than other banks because of structural constraints (Henderson 1999; Cullen and Levitt 1996).
shape ethnic communities (Dymski and Li 2004; Li et al. 2002; Lin 1998). However, although
the groundbreaking work of such scholars have begun to unravel some of the strategies that
ethnic bankers use, none of these approaches look at how ethnic bankers understand race and/or
explain how and why some ethnic bankers engage in financial activism because they mainly
focus on the large structural and quantitative aspects of ethnic banking. The micro-level
qualitative data on ethnic banks gathered from my study will fill a gap in the literature on
multiple fronts.

My study lies at the intersection of a few fields within the social sciences. Within
sociology, my dissertation addresses literature in race and ethnicity, culture, economic sociology.
Outside of sociology, I engage studies in economics, history and geography to provide a wide-
ranging analysis. My research combines these literatures together by using ethnographic methods
to analyze the meaning(s) and use(s) of race in an economic setting. Unlike other studies, in
addition to providing an in-depth analysis of the reproduction and transformation of race at an
ethnic bank that has spanned the pre- to post-CRM eras, I focus on how these changes have
affected the resistance strategies of the actors at this bank. By using the social constructivist
approach and focusing on how race is constructed in daily banking activities, race will take center
stage in my research because it will allow us to see the transformation of race as it highlights the
ways in which social reality is constructed through processes and continually changes. I rely on

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20 Researchers interested in ethnic economies also study ethnic banks as a part of a group of
economic institutions such as small businesses, rotating credit associations, and micro-borrowing
organizations to explain the inner workings of minority communities. For example, Light (1972)
briefly discusses ethnic banks, but because ethnic banks did not play a significant role in the
objective of his study, they were not elaborated upon. Light and Bonacich (1998) also only
briefly explored the role of Korean ethnic banks as they studied the Korean American ethnic
economy. Furthermore, Lin (1998) and Pattillo-McCoy (1999) looked at ethnic banks as a
secondary consideration in their larger work. Such work—as well as other studies that may not
necessarily study ethnic economies, but do focus on ethnic networks--primarily focus on actors
(i.e. entrepreneurs) and mechanisms (i.e. networks, social capital, trust, etc.) (Anthony 2005;
Ferrary 2003; Lee 2002; Light and Gold 2000; Portes and Sensenbrenner 1993; Clark et al.,
1993).
Michael Omi and Howard Winant’s (1986) racial formation theory to accomplish this, a theory that comes out of the social constructivist tradition in the race and ethnicity literature.\textsuperscript{21} This research is unique because a major weakness in the race and economics literature is that it does not analyze race as a distinct and complex social phenomenon. Instead, the literature treats race as a “given,” as if it were a concept or category that people “naturally” have or belong to. Furthermore, when people “take on” a certain racial identity, the literature treats this process in a homogenous and unvarying manner. In sum, the existing literature on the intersection of race and economics does not examine what race really “means.”

Current approaches to studying the intersection of race and economics on a micro-level fall into two categories that I call the ethnic economies approach and the market exchange approach. The ethnic economies approach attempts to explain social (im)mobility by examining economic institutions such as small businesses, rotating credit associations, and microborrowing organizations and primarily focus on actors (e.g., entrepreneurs) and mechanisms (e.g., networks) to explain the inner workings of minority communities (Light 1972; Light and Bonacich 1988; Light and Gold 2000; Anthony 2005; Lee 2002; Clark et al. 1993). The market exchange approach is based on neoclassical economic models that treat race as an anomaly. This approach assumes that racism will cease to exist once there is an unfettered free market. Therefore, this approach also examines the sources of disruption\textsuperscript{22} to the market’s equilibrium as the explanation of racial discrimination in economic situations (Friedman 1962; Becker 1971; Thurow 1969; Thurow 1971; Omi and Winant 1986:55; Friedman 1962; Becker 1971; Thurow 1969).

\textsuperscript{21} Omi and Winant define racial formation as "the process by which social, economic and political forces determine the content and importance of racial categories, and by which they are in turn shaped by racial meanings" (1986:55). It is this socio-historical process by which racial categories are created, inhabited, transformed and destroyed. Racial formation accomplishes two tasks simultaneously. On one hand, racial formation theory explains the socio-historical process in which cultural and political dimensions of race are constructed and maintained through competing political projects. On the other hand, racial formation theory delineates the evolution of hegemony—the way in which society is organized and ruled (Omi and Winant 1986:55).

\textsuperscript{22} The market exchange approach identifies three general types of disruptions in market’s equilibrium: irrational prejudice, monopolies, and the state intervention. (For further explanation, see Omi and Winant 1986:25-26.)
Sowell 1975; Williams 1982).

The ethnic economies approach excels at studying “agency” of entrepreneurs and tracking the intricate ways in which networks can facilitate the transfer of goods, credit and knowledge among co-ethnics. However, this approach tends to have a myopic focus on the inner workings of ethnic communities, such as networking, and often fails to provide adequate analysis on racial dynamics that exist beyond the confines of an ethnic community. Thus, the difference between race and ethnicity are lost and consequently the effects of racism are lost along with it. Another problem with the ethnic economies approach is that there is no discussion of what ethnicity is. Ethic bonds are taken as given and it is unclear how ethnic bonds are maintained or formed in the first place. For instance, there is an assumption in the literature that ethnic minorities have an innate fondness for co-ethnics. The market exchange approach shares the same weakness: it does not define what race and ethnicity mean and it homogenizes identity. It merely assumes that racial and ethnic solidarity exists and that all racial and ethnic identities are experienced and constructed in the same way. In sum, neither approach looks at how race is constructed and what particular role(s) race may play in economic interactions. My study avoids this pitfall by placing race at the forefront of the analysis by using Omi and Winant’s (1986) racial formation approach.

The racial formation perspective places the social construction of race as central to the meaning of race. In their theory of racial formation, Omi and Winant’s (1986) argue that race is not an essence or an illusion (1986:54). Rather, race is a “concept which signifies and symbolizes social conflicts and interests by referring to different types of bodies” (1986:55). In other words,

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23 One of the most interesting concepts elaborated on in this literature is social capital. The essence of social capital is captured by the saying, “It’s not what you know, but who you know.” This concept has been used to explain the success of minority-owned economic organizations (Granovetter 1973, Gold and Light 2000, Ostrom 2003, Coleman 1988, Clark 1993). (For more on economic practices and social capital, see Portes and Sensenbrenner 1993, Portes et al. 2002, Burt 1992, Putnum 1994).
race is a highly varied, complex phenomenon that is constantly shaped and reshaped by social, political and historical forces. Therefore, race is inherently an unstable and “decentered” concept (Omi and Winant 1986:55). In the racial formation perspective, examining this construction process is key to understanding the meaning(s), role(s) and consequences race may have in everyday life. My research will be examining this process in the economic activities of an ethnic bank, which can play powerful roles in shaping people’s life chances. Thus, it is critical that racial formation theory be applied to this site in order to show how race is constructed, transformed and used in banking activities.

On the macro-level, politicians and others use political projects (or racial projects) to articulate or reinterpret the dominant understanding of race to affect national debates and legislation. By affecting the use and shape of racial categorizations on these platforms, race is therefore embedded in the social structure (Omi and Winant 1986:56). On the micro-level, the everyday uses of race reflect the way in which race in institutions and organizations constantly interact with our own experiences (Omi and Winant 1986:59). In sum, the racial formation perspective emphasizes the extent to which race is a social and political construction that operates at two levels, the micro (i.e., individual identity) and the macro (i.e., collective social structure). The two levels interact to form a racial social movement when individuals at the micro-level are mobilized in response to political racial injustice at the macro level. The racial formation theory posits that the everyday usage of race and ongoing racial projects create a “comprehensively racialized social structure.” Put simply, race has the dual role of carrying everyday meaning and being an organizing principle in structuring our lives.

In part one of my dissertation, I use historical data show how race has become embedded in the financial industry. In part two, I use primarily ethnographic data to show how the everyday uses of race on the micro-level reflect the way actors interact with how race has been embedded in the financial industry. It focuses on the cultural and economic practices of bankers that
continue to shape the strategies employed at the bank to achieve the dual goals of profit and community. I show that BFB is inherently a political organization as well as a financial, social and cultural organization in that its bank culture necessarily takes a stand against the mainstream industry’s mode of operating.

“Doing” Financial Activism: Filling Gaps in the Literature on Multiple Fronts through Ethnographic Methods and the Social Constructivist Perspective

By using historical and ethnographic data to study the cultural and economic reproductions of race, I show how race still matters in banking by focusing on how generations of BFB bankers have engaged in what I call financial activism. I rely on Omi and Winant’s racial formation perspective in a bank setting, looking at how the meanings and roles of race have changed at a bank that has operated for over 60 years. This is unique because no one has studied a bank in order to understand how people use a financial institution to understand what Lipsitz calls the culture of resistance by looking at the strategies of bankers. That is, to see how do people “do” activism at a bank. This is important for addressing racism, something that was missing in works that study racial formation or the social construction of race. Furthermore, I use concepts in the economics and economic sociology literature such as embeddedness and social capital to elucidate the specific strategies the bankers use to conform to banking regulations, while opening up financial opportunities to community members who are typically excluded from the mainstream industry because they are deemed “too risky.” In sum, what distinguishes my study is that I combine Omi and Winant’s racial formation theory of the social construction of race to analyze how generations of bankers at Broadway have used the changing meanings and roles of race in order to resist the racial biases in the financial industry. I am making a contribution to the race and ethnicity literature by looking at the social construction of race in an economic setting.

Furthermore, I identify concepts (e.g., the “sweet spot” and “calculated compassion”) that
add to George Lipsitz’s work on the culture of resistance. Omi and Winant’s theory of racial formation does not go into detail about how racism can be addressed. However, Lipsitz’s work (2012) on the aesthetic nature of the culture of resistance has given us some important clues. Lipsitz asserts that racial minorities find ways to overcome oppressive segregation under what he calls the culture of resistance through art, literature, poetry and music. I apply Lipsitz’s theory to ethnic banking to show how generations of BFB bankers have resisted the financial industry’s biases against racial and ethnic minorities and thereby add to the literature on how people racial and ethnic minorities have used financially-based strategies in their culture of resistance. The specific strategies I identify in this study show how racial minorities at BFB have resisted their marginality in an economic setting. Specifically, the financial activism I identify is the strategic embedding the bankers engage in order to stay connected to the needs of their community and provide opportunities to those who are typically marginalized by the mainstream financial industry. By focusing on this form of financial activism, I am also adding to the fields of economic sociology and economics by analyzing the banking strategies of Broadway using the concepts of embeddedness and social capital.

A Culture of Resistance: Resisting Financial Marginalization Inherent in Embeddedness:

Financial Activism as Bank Culture at Broadway Federal Bank

As an ethnic bank, BFB carries on the legacy of a type of organization that is rooted in a minority group’s effort in self-determination and empowerment. Since the beginning, BFB has been a symbol of pride in the African American community. It not only gave blacks an opportunity to get a home mortgage from a stable and reputable bank, but it also provided employment and training in banking. Over the years BFB has trained many African Americans in skills necessary in banking. After the Civil Rights Movement when mainstream banks began hiring blacks, many of the BFB-trained staff would leave BFB to work for those mainstream banks. Furthermore, BFB not only survived the merger mania of the 1980s, but remained in
business after the 2007 subprime crisis that took down some of the largest banks in U.S. history. How did BFB, despite its lack of community resources able to survive for over 60 years?

As a for-profit bank that is insured by the FDIC, BFB is bound by the dynamics of institutional isomorphism, which forces the institutions in a system to become increasingly uniform. I show that the bankers use the logic of reinvestment to achieve the often contradictory goals of profit and community and address the racial discrimination embedded in the banking industry. The LOR encourages a type of “calculated compassion” for those who are marginalized and is based on the principle of giving second chances, while remaining solvent. The LOR is a schema that guides the employee’s decision to “give back” or to make a positive contribution to their community. The bank culture of LOR at BFB is similar to the continuously changing rationale and solidarity that Christena Turner (1995) and Rick Fantasia (1988) discuss in organizations taking collective action. (For more, see Ch. 4.)

The LOR inculcates the staff with the conviction to “give back.” “Giving back” can take many different forms—for example, it can mean supporting a non-profit organization such as “Recycling Black Dollars” where African Americans are encouraged to spend money at black owned businesses or it can mean providing financial literacy workshops for domestic violence victims at a women’s shelter. “Giving back” can also refer to recognizing the particular hardships a potential customer may have faced and working extra hard to provide financial services and opportunities for a customer who may not fit the mainstream definition of a “typical” customer. In sum, the LOR describes the bank’s company policy, employee orientation, marketing strategy and cultural legacy.

The LOR is part of the legacy of the founders, a group of pragmatic and conscientious

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24 In line with Bourdieu’s theory, I use “schema” to mean culture in the way Rick Biernacki does in the Fabrication of Labor (1995). In it, he asserts: “Culture can be conceived provisionally as the schema that agents employ to orchestrate their instrumental strategies, rather than a set of revered values” (24).
capitalists who were concerned with providing equal financial opportunities to those who are excluded from the mainstream. The founders themselves were shaped by the ideals of racial uplift, a prominent theme in black intellectual history (see Kevin Gaines 1996) and the black spatial imaginary (Lipsitz 2011), a form of cultural resistance in African American history used to resist oppressive segregation. The LOR is rooted in the ideals of democracy, justice and equal opportunity. Therefore, the LOR is a form of intellectual and political resistance. The financial activists working at the bank throughout the bank’s history continue to be dedicated to applying the LOR because of the continued disparities in the financial industry. The bankers are motivated to use their flexibility and discretionary powers to assist the marginalized because the LOR encourages an extension of compassion that is coupled with a kind of trust—a trust that is based on social networks and the understanding of the community. Moreover, the staff’s racialized experiences inside and outside of the bank also cultivates their desire to prioritize the welfare of the community. Furthermore, as a cultural phenomenon, the LOR is not static. Specifically, I argue that the bank’s flexibility—as guided by the LOR—reflects the particular challenges that the people of the SLA community face at a particular time as seen in the bankers’ flexibility in determining the safety and soundness of loans on a case by case basis. This is evident in the bank’s current strategy of embeddedness in the community. That is, BFB bankers embed themselves and the bank as an organization on a collective level through various networks they build with community organizations and on an individual level where the banker decides to use social relationships to gather information on a borrower instead of wholly relying on the risk standards as other banks do in the mainstream industry.

Although the banking industry has largely become disembedded, there are a few interesting studies have shown how financial institutions have used embeddedness as a strategy. For example, as mentioned above, Guseva and Rona-Tas (2001) have shown how the budding credit card industry has resorted to relying on an embedded system because the country lacked a
disembodied infrastructure and Ferrary (2003) has shown how French mainstream banks are increasingly relying on social relationships even though a disembodied infrastructure is intact because it is a more profitable and efficient way of gaining more accurate information on borrowers. However, in my study, I show how bankers at BFB choose to employ what I call the strategic embeddedness model to evaluate creditworthiness in order to provide opportunities to an underserved population—sometimes at the expense of their own financial gain. At a time where banking in the U.S. is no longer based on social relationships; the bankers at BFB are strategically reversing this trend in order to combat the racially skewed biases embedded in the mainstream’s mechanized evaluative system. Specifically, they are using social ties to reduce the possibility of delinquency by building trust and at the same time “anchoring” the borrowers by increasing their accountability through social networks. Furthermore, in order to help mitigate the non-conforming credit histories of their clients, BFB employees build relationships and use strategies such as listening and considering the life stories of their clients as legitimate character-building data. The stories and experiences of their clients matter to the BFB team because it helps the employees build trust, understand the challenges their clients have faced and overcome and it ultimately helps produce a more well-rounded and accurate assessment of the clients possibility of delinquency than if the BFB employees solely relied on the mathematical calculations of risk that is characteristic of the disembodied model. In sum, by employing their own version of credit assessment that focuses on the individual instead of relying wholly on the mainstream industry’s standardized model that categorizes individuals into groups, BFB is resisting what Omi and Winant (1986) call “racial common sense”—subjective notions of race based on stereotypes that is often understood as being non-existent in the so-called objective financial world. (See Ch. 7 for more.)

**Bourdieu: Social Capital and the “Automatic Extension of Credit”**

As an integral part of the bank culture, the LOR is the driving force behind the cultivation
of networks and the use of social capital to build the trust that allows bankers to be flexible in their evaluation of their clients. Bourdieu defines social capital as “the aggregate of the actual or potential resources that are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition—or in other words, to membership in a group—which provides each of its members with the backing of the collectivity-owned capital, a ‘credential’ that entitles them to credit in the various sense of the word” (1986:102). Ethnic banks can be seen as producers of social capital because the social networks the bankers cultivate encourages the amplification of the potential resources that the community members of SLA may draw upon and it literally entitles them credit, hence possibly providing them an “automatic extension of credit” (Dymski 1999, Li et al. 2004, 2002, 2001).

In analyzing the ways in which the bankers use their LOR to resist the unequal opportunities structures institutionalized in the banking industry, I document the significant role of culture in banking transactions first by documenting the reproduction and function of the LOR in shaping the financial decisions at the bank. The important role of social capital and trust in banking transactions also highlights the prominent role of culture because scholarly research has shown that social capital and networks are important resources for the welfare of the community because it can provide resources, such as job opportunities, political leverage, etc. (Granovetter 1973; Haynes and Hernandez 2007). As mentioned above, the coupling of race and space resulted in the spatial, financial and social exclusion of people of color, but it also put limitations of social capital “to make things happen” in those segregated areas. Social capital scholars (Haynes and Hernandez 2007; DeFillipis 2001; Fernandez Kelly 1995) say that as a result of this racialization of space, social capital is affected. That is, social capital is contingent on the racialization of space. This is because the racialization of space shapes the type of social

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25 Bourdieu uses “culture” in various ways. For example, culture can be seen as a schema used by agents to orchestrate instrumental strategies or it can also refer to high, elite or legitimated culture. (See footnote 19 for more.)
capital that exists and it is self-perpetuating. For example, Haynes and Hernandez (2007) argue that social capital facilitates racial and class inequality within a historically segregated context. They highlight the state’s crucial role in supporting the development of “residentially-based racial network” in which segregated areas have racial networks in residential areas that are limited in resources and opportunities than those of the resource-rich communities (2007:9). Living under resource-poor networks, Haynes and Hernandez (2007) assert that segregated communities have fewer opportunities to achieve “boundary crossings” that can help facilitate resources into the community. Furthermore, research pioneered by Dymski, Li and others (2004, 2002, 2001, 1999) that show ethnic banks are often a few steps ahead of mainstream banks in identifying new niches because the ethnic banks have a type of social capital that mainstream banks lack. However, it is unclear how exactly social capital is reproduced and used. I rely on the Bourdieu’s (1986) definition of social capital and his theory of economic practices in order to highlight how the bankers at BFB achieve the dual goals of profit and community by documenting the specific mechanisms and processes in which social capital can be used to facilitate banking transactions aimed at providing financial opportunities to those who have been marginalized by the mainstream. Specifically, I find that the social capital that the bankers develop through their connections to the community generates a type of trust that facilitates financial opportunities to those often ignored by mainstream financial institutions.

Bourdieu’s theory is important because it allows us to see how social capital is innately tied to culture and social structure, and therefore, to issues of power. As mentioned above, Bourdieu (1986) asserts that social capital is one guise of capital and that in order to truly understand inequality and the accumulation of wealth, we must consider how economic (or

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26 The concept of “boundary crossings” is similar to “bridging capital,” which refers to the type of social capital that enables the crossing of what Burt (2001) calls “structural holes” among nodes in social networks. In contrast, bonding capital refers to the social ties that exist within inner circles.
material) capital is transubstantiated into other forms of immaterial capital such as social and cultural capital and vice versa (242). There are three basic forms of capital: economic, social and cultural. The root of all forms of capital is economic (material), however they (the immaterial forms) cannot be wholly reducible to mere economics. The last form, cultural capital, can be further categorized into three states: embodied (i.e., the acquisition of values, tastes, dispositions), objectified (i.e., cultural objects), and institutionalized (i.e., academic qualifications that exist independent of the bearer and impose recognition and value that is constant). Bourdieu (1986) proposes a “general science of the economic practices” that brings to light the conversion of one type of capital to another (242). Immaterial capital can help reproduce economic capital in a clandestine manner. Therefore, it is imperative that we consider all forms of capital when studying social inequality. This dissertation not only highlights the important role of social capital through capital conversion in facilitating banking transactions at BFB, but it documents how social capital can be used to resist class reproduction—even though Bourdieu’s theory of capital conversion is often used to show how class is reproduced. Bourdieu states that it is important to understand the reproduction of class by understanding how the different forms of capital (i.e., cultural, social and economic) transubstantiates to reproduce privileges for those who have high or elite class status. However, in my dissertation, I apply his theoretical model on a group that does not have elite class status and identify the ways this group can use social networks to “realize” social capital (DeFillipis 2001) that may help those excluded to move up in their social class standing and in doing so, resist class reproduction.

**Social Constructivist Approach and Racial Formation Theory**

By relying on Lipsitz’s work (1998, 2011) and combining Bourdieu’s theory with Omi and Winant’s (1986) racial formation theory, I show that race is not necessarily defined by skin

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27 Bourdieu essentially treats capital as synonymous as power (DeFilippis 2001:783) and in some ways, Lipsitz (1998) and others who study whiteness in the race and ethnicity literature have long treated whiteness as a form of capital or resource that can transform into privileges.
color, but in terms of power. In other words, my dissertation shows the ways in which race can be redefined as a function of power rather than skin color. Because BFB’s mission is based on empowering those who are excluded instead of providing charity, I show that the bankers view race as power: the label of “whiteness” signifies those who have privileges and access to power while “blackness” comes to stand for those who are excluded and marginalized. Therefore, although the bank historically has focused on assisting African Americans, it also readily includes helping others who have been excluded and do not possess the privileges of “whiteness.” Furthermore, my research contributes to the literature by analyzing the construction of race in an economic setting by using the constructivist approach. The social constructivist understanding of the construction of race in the financial industry allows us to see the transformation of race because it highlights the ways in which social reality is constructed through processes and continually changes. The racial formation perspective also comes out of the social constructivist tradition in the race and ethnicity literature.

By using the racial formation perspective to focus on how race is constructed in daily banking activities, race will take center stage in my research--something that the literature covering the intersection of race and economics does not do. A major weakness in this literature is that it does not analyze race as a distinct and complex social phenomenon. For example, studies of ethnic networks (Anthony 2005; Ferrary 2003; Lee 2002; Light and Gold 2000; Portes and Sensenbrenner 1993; Clark et al., 1993) and ethnic economies (Portillo-McCoy 1999, Light and Bonacich 1998; Lin 1998; Light 1972), which often overlap, study race and ethnicity without treating race as a distinct and complex phenomenon. Instead, the literature treats race as a “given,” as if it were a concept or category that people “naturally” have or belong to. Furthermore, when people “take on” a certain racial identity, the literature treats this process in a homogenous and unvarying manner. In other words, race is taken for granted or seen as objective and unvarying and therefore the literature does not define what an ethnic or racial bond “is” or
how it is constructed. In sum, the existing literature on the intersection of race and economics does not examine what race really “means.” However, the racial formation perspective provides a way of examining this construction process—a process that is important in understanding race and its consequences. The work on ethnic banking have made important in-roads in understanding this process, however, this literature does not focus on the bank culture, the “why” or “how” ethnic bankers and community development bankers are able to achieve the dual bottom line. I delve into the logics ethnic bankers at BFB use to achieve their dual goals of making a profit and assisting the underserved despite the industry’s pressure for ever increasing profits.

V. Methods: The Use of Historical and Ethnographic Data

History: Distinguishing the Formation of Race and Racism from the Pre-Civil Rights Movement Era to the Post-Civil Rights Movement Era

I rely on both historical and ethnographic methods in this study because they provide the data that show how race and racism at a bank that spans across the pre- to post-CRM eras continues to operate but shifts with the times. I use historical data in order to demonstrate how race and racism has changed from something that is blatant to more subtle forms in the bank’s span across the pre-to post-CRM eras (See Omi and Winant 1986). In other words, historical data shows why race and racism in the US is not easy to see anymore and that the colorblind ideology is empty rhetoric. Furthermore, historical data makes visible the connections between the legacy of segregation and its financial consequences on segregated communities. For example, segregated communities continue to experience divestment and therefore there is less wealth built in communities of color due to fewer well-paying jobs, access to financial resources, etc. (Therefore, minorities in segregated areas are less likely to have conventional jobs (e.g., jobs with W-2 forms) that mainstream banks see as acceptable.) Divestment combined with subtle forms of racism (e.g., institutionalized definitions of people in segregated areas as “riskier”) and overt forms of racism (e.g., bankers at Wells Fargo pushed subprime mortgages (“ghetto loans”) on
blacks ("mud people") (New York Times 2009)). Finally, historical data also provides context on how and why the current generation of BFB bankers have to shift their strategies to resist subtle forms of the racial biases in the post-CRM era. (The most obvious example of this shift can be seen in the comparisons of the pre-CRM era map of redlining, BFB’s blatant portrayals of racism at work in advertisements from the 1970s, and the current BFB advertisements that have more subtle hints of race with prominent themes of multiculturalism.)

**Ethnography: Identifying the Processes of Balancing the Dual Goals of Profit and Community**

My research highlights the cultural processes in which bankers at one ethnic bank are able to achieve the dual goals of profit and community over six decades. Christena Turner writes, “To understand collective action and the solidarity which must motivate it, the consciousness of the workers involved must be seen in the full complexity of everyday life” (1995:18). The strength of ethnographic research is its ability to unravel such social processes. Turner continues, “The significance of Geertz’s ‘thick description’ is to contextualize slices of social life so that stories people tell one another about themselves may be interpreted in action—concepts in the context of action, culture in the company of social life” (1995: 18). Since the goal of this dissertation is analyze how race, culture and different forms of capital are intertwined at an ethnic bank, I rely on such qualitative data to reveal such processes. In particular, ethnographic research is a valuable method to studying issues such as judgment and trust. This method, along with my extensive access to BFB—that is, my role as an intern that has allowed me even access to discussions of loan review meetings—gave me an opportunity to collect rich data. The stories and life experiences that interviewees have told me—as well as the stories that clients tell the BFB employees (as mentioned above) are important at the bank because it reflects how relationships and communities are built. Furthermore, the history of ethnic banks in the U.S. not only serves as appropriate context for the resistance strategies of BFB workers, but furthermore,
ethnic banks are ideal sites to explore the construction of race and investigate its role in economic decisions such as the logics and practices employed by bankers in assessing loans. Organized by community leaders to help co-ethnics who are marginalized by mainstream financial organizations, ethnic banks have historically attempted to assist minorities gain a stable financial footing in the U.S. Since issues of race and economics converge at the forefront of these organizations, my research promises to provide ample data on how race is understood and used by bankers.

Relying on Bourdieu’s theory of economic practice, I use in-depth interviews and participant observation to examine the subtle ways in which social capital and culture operate in transactions at BFB. Since ethnic banks are rich in all forms of capital that Bourdieu uses in his analytical framework (i.e., social, cultural, economic, etc.), they are ideal sites to concretely look at how different forms of capital are transformed. Furthermore, my research will provide a unique window into the private and protected world of banking. Due to issues of confidentiality, few researchers have been allowed into the world of banking in general. But current empirical data on ethnic banking is even rarer because historians and social scientists have overlooked ethnic banks as topics of study.

Data

The observations and interview data I collected from my fieldwork demonstrates processes through which BFB employees navigate the institutionalized racism that is persistent and achieve the dual goals of profit and community. From the fall of 2006 to the end of winter of 2007, I worked as an intern at the bank and worked there two days a week and sometimes even on the weekend when the bank was involved in events such as community fairs. But even after I left my formal position as an intern in December of 2007, I continued to do internship work for the bank during special events such as art exhibits held at the bank until the fall of 2008. Even after then, I still had contact with BFB staff and management, sometimes visiting to conduct additional
interviews or just to catch up with what was happening at the bank.

The data from participant observation allows me insight on how the staff and clients understand and view race and what role(s) it plays at the bank. During my fieldwork, I conducted participant observation and in-depth interviews with the bank’s management, staff, customers and community members who I would meet through my work at the bank. I conducted 64 in-depth interviews (with 50 interviewees) that ranged from 30 minutes to two and a half hours. The interviews were loosely structured and interview questions aimed to clarify the meaning and the role(s) of race and also show how the people running the bank perceive, rationalize and draw boundaries on issues of race and community development. The interviews include the life histories of the interviewees as the stories of their personal lives interweave with their work histories and their experience at BFB. The interviewees talk about how and why they decided to work for BFB; their daily duties at BFB; how they understand their role inside the bank and what they believe the role of the bank is. Participant observation at BFB consisted of fulfilling duties of an intern, such as sitting-in on various meetings and helping with projects. I attended sales meetings where I learned how the elite relationship management team networked and generated business for the bank. I also helped in various marketing projects where I learned about the logic and rationale used to create BFB’s image. I even went to Sacramento with a team of bankers in the spring of 2008 for a charter school conference.

In addition, I conducted archival research at public libraries and at what was left of the archives at the bank. BFB’s headquarters, along with its archives, was burned in the 1992 Rodney King civil uprisings. Fortunately, not all of the bank’s pre-1992 archival materials were lost and the banking management graciously opened their archives to me which included documents, newspaper articles, pictures of the staff and branch locations, as well as old advertisements of the bank that had been placed in newspapers and magazines. I conducted extensive archival research at the Central Los Angeles Public Library (LAPL) where I combed
through reels and after reels of microfiche of the *Los Angeles Sentinel*. (The librarian at the LAPL informed me that there was no database to do a quick search of BFB because the library could not afford to pay the *Los Angeles Sentinel* for such a database.) One of the highlights of this search was the discovery of a small newspaper advertisement announcing the grand opening of BFB in the January 9th, 1947 edition of the newspaper. The advertisement included the grand opening date (January 11th, 1947) and included the names of the officers and Board of Directors at the bank. (See Appendix A for more.) The advertisement proved to be a gem because before its discovery no one had known this information—a piece of history that was lost in the fire.

I also relied on the transcripts of interviews housed at the Cal State Fullerton’s oral history archives to further piece together the early history of BFB and the personal histories a few of its founding directors, as well as other influential community leaders of the time. The archive’s transcripts of in-depth interviews proved to be remarkably helpful in allowing me to understand not only the motivation of these leaders, but the details concerning the founding of the bank.

Using the analytical lens of an ethnographer, I examine the ways in which the people at BFB engage in financial activism by focusing on how they negotiate the banking industry’s demands of institutional and structural conformity—the dynamics of institutional isomorphism—in an attempt to reverse some of the dire consequences of financial marginality rooted in residential segregation. This study highlights how the financial activism at BFB should be seen as a response to the continued financial marginalization of the SLA community—a community that was deliberately carved out of the LA landscape in the 20th century that resulted in the social, physical and financial isolation of racial-ethnic minorities. Furthermore, this study reminds us of the important role of local community banks in identifying the needs of those who are left out by an industry that is increasingly relying on uniform categories as it continues its trends in consolidation and mechanization. These findings all highlight how racial disparities in the lending industry cannot be properly addressed in a colorblind manner with seemingly race-neutral
policies because racial and ethnic discrimination has been embedded in the institution. Finally, this study shows how a racially conscious bank culture can address some disparities, however limited those are.

**Organization of the Dissertation**

The following chapters explain how and why generations of bankers have engaged in financial activism at BFB and have managed to achieve the dual goals of profit and community. In Part I (Chapters 2, 3), I describe why a black bank was needed in SLA by providing the historical context of segregation and the coupling of race and space. The embedding of race and racial meanings in the seemingly race-neutral financial industry in the post-Civil Rights Movement era has reinforced the widespread belief that our society has become “post-racial.” In Chapter 2, I argue that one of the most pressing issues African Americans faced in LA in the 20th century was the spatial, social and financial exclusion caused by a particular type of half-free segregation that kept African Americans as second class citizens. LA-style Jim Crow created a legacy of the coupling of race and space that locked-in substantial disadvantages for the people of color who were relegated to the most undesirable areas of the city well into the 21st century. In Chapter 3, I show that the founders were part of a network of empowered elites who were engaged in various forms of social activism. They were pragmatic, conscientious capitalists whose dedication for social justice was translated and carried forth in the mission and banking culture embedded in the bank—a culture of the LOR. I also provide the biographies of three of the founders to highlight the themes discussed in the previous chapter. The rich details of these founders’ lives show how individuals navigated LA’s half-free environment and how their networks were in large part a consequence of living segregated from the mainstream.

In Part II (Chapters 4, 5) I describe the tools the BFB bankers use to resist the financial marginalization their customers continue to face by focusing on the LOR bank culture as a means of engaging in financial activism. In Chapter 4, I argue that the LOR is a form of resistance that
George Lipsitz (2011) calls the black spatial imaginary, an imaginary based on empowerment, communal goals and justice. Rooted in African American intellectual thought, the logic of reinvestment is what the bank’s management and staff rely on to make decisions at the bank to achieve the dual goals of profit and community; in particular, by shaping bank agents’ commitment to providing marginalized clients “second chances.” In addition to guiding decision-making, the LOR also brings the bank agents to work with each other and the community. In Chapter 5, I focus on two important aspects of the LOR: “family” and mentoring. The concept of “family” is used and embraced by both the management and staff to describe the bank. I suggest that among other functions, this concept reproduces the LOR at the bank. I show how BFB agents bring their LOR to the workplace and reproduce this logic in order to achieve the dual goals. Then I explore mentoring as one particularly important way in which the bank management instill the LOR in the staff and therefore help reproduce the LOR. The mentoring of an employee is an investment in the employee herself and fulfills the bank’s mission to provide training and professional opportunities to those who may not have such opportunities in the mainstream industry. Furthermore, analyzing the changes in mentoring over the history of the bank also allows an important view into the changing nature of race and the ways in which the changes of the financial industry have shaped the inner workings of the bank.

In Part III (Chapters 6, 7), I focus on how the BFB bankers engage in financial activism by showing how the LOR is applied in specific instances. This section highlights the ways in which the bankers use their LOR, social capital and trust to redefine risk, reduce uncertainty and resist the industry’s trend of disembeddedness. In Chapter 6, I show how social capital is cultivated in the community by focusing on the bank’s involvement in the “gray areas”—that is, non-conventional loans and niches. BFB staff and management invest in building strong networks in these community-oriented niches because these “gray areas” allow the bankers to use their discretionary powers to achieve the dual goals of making a profit and helping the
community. I argue that the bankers’ commitment to being “flexible” in “gray areas” reflects their commitment to the LOR and that this feat would not be possible if the bankers did not build trust in the community in the first place. In Chapter 7, I show how social capital “works” at BFB by focusing on the important roles of culture and trust and how they affect the subjective parts of the bankers’ decision-making process, which sometimes is different from the mainstream industry’s process. In particular, the bankers’ LOR culture shapes the way that the bank redefines risk contrary to how the mainstream industry has constructed risk. I suggest that BFB strategically chooses to rely on uncertainty instead of risk in an effort to stay embedded in their community and address the ongoing consequences of the coupling of race and space. But at the same time, such strategies may cut into profits and keep the bank small. In Chapter 8, I conclude the dissertation suggesting that despite the incredible effort, resilience and dedication the bank’s management and staff have shown in their financial activism, the outlook of the bank is tenuous given the economic fragility of community they are dedicated to serving and the unrelenting pressures of the economic market and federal government oversight.
Chapter 2 Segregation in Half-Free Los Angeles: Countering Systematic Exclusion through Financial Activism

No part of said property or any building thereon shall be used or occupied by any person not belonging to the Caucasian race, as owner, lease, licensee or tenant or in any other capacity except as servant.

Race Restrictive Covenant (June 16, 1926)

I. Introduction

In the late 19th and early 20th century, Los Angeles (LA) gained the reputation as a haven for African Americans because the city was seen as embodying the Western Ideal, which was based on justice and equality (See Flamming 2006:55). Along with its warm weather, the city reached almost utopian status among African Americans throughout the nation through city boosters, African American newspapers, and the word of mouth (McBroom 2006; Flamming 2006). To many, the West was the last frontier for blacks to become full citizens and live free from racial discrimination. Indeed, LA allowed black migrants to escape the violence and intimidation of the South where the daily lynching of African Americans was not uncommon. However, what most blacks experienced when they migrated to LA was what Flamming (2006) calls a half-free environment due to the particular type of Jim Crow segregation which seemed to be “refracted racism” from the South as more white Southerners moved to the West and brought with them the Jim Crow attitudes of the South. This half-freedom made it possible for a handful of blacks to become successful, but blacks nevertheless suffered from the social, spatial and financial exclusion that left the promise of the West unfulfilled. This unfulfilled hope made some black Angelenos even more motivated to fight discrimination and to keep the city as “free” from racial discrimination as possible. Therefore, social activism was a “way of life” for black Angelenos (Flamming 2006). In this context, the decision of the founders to establish a black bank in LA was not only desirable and possible, but absolutely necessary for the future of black Angelenos. Broadway Federal Bank (BFB) was established in LA because mass migration
during WWII created a critical mass of blacks who needed access to financial capital and the severe overcrowding in segregated black communities made the need to fight segregation even more urgent. Furthermore, the half-free environment allowed just enough freedom for some to achieve individual financial success and fight for reform without the fear of lynching, but nevertheless kept all minorities as second class citizens. Finally, the disappointment of black migrants who saw LA’s Western Idealism as African Americans’ last chance for freedom spurred black Angelenos to create the freedom that they came to find.

Financial activism through the work at BFB was a form of social activism because securing the rights to property ownership was of the utmost priority to the founders since many of the founders’ grandparents were former slaves who did not even have the right to own their own bodies. But the half-free environment in LA did not allow African Americans to buy homes and land outside of segregated areas. Professionals in the financial industry, as well as everyday home owners, came together to deny blacks home mortgage loans through redlining and the use of restrictive covenants made it impossible for racial minorities to own homes in certain areas. Mainstream bankers systematically denied home mortgage loans to blacks regardless of their financial standing to ensure that blacks remained segregated into dilapidated areas of the city—while the same banks accepted the deposits of blacks but only gave loans to whites. In an attempt to gain equal opportunities to financial success—and to decouple the coupling of race from space that segregation had created and maintained---the bank’s founders invested in a black bank that facilitated empowerment and self-determination among their community members.

II. The Ambivalent Half-Free Environment in Los Angeles

To fully understand why social activism was a way of life for black Angelenos, we must dig deeper in the context of the ambivalent half-free environment in LA. Historian Doug Flamming (2006) asserts that the first wave of black migrants to arrive in LA in the early 20th century was drawn to Southern California by the promises of equal opportunity and full
citizenship. This “Western Ideal” promised warm weather, good paying jobs and a life free from the oppression and violence of the South. Black migrants arrived with high hopes of freedom—only to be met with a peculiar kind of half-freedom. In the late 19th century, LA was not fully segregated, but White Angelenos had developed their own version of Jim Crow-- a version that was developed when Angelenos picked up attitudes from white Southerners who migrated to LA. On one hand, black Angelenos felt “freer” than in the South because the “refracted racism” in LA was not backed by the lynching and violence of the South. On the other hand, African Americans were simultaneously excluded opportunities afforded to white citizens due to segregation. Therefore, the black migrants who arrived in LA had to create the equality they came to find. As Flamming (2006) aptly put it, “social activism for these leaders was not a movement, but a way of life.” As one of the farthest cities black Southerners could migrate to, LA was in many ways seen as the last frontier and the last chance for African Americans to create a place where they could become full citizens. As early as 1900, black pioneering elites had began organizing to stave off encroaching Jim Crow practices in LA through socio-political organizations and by using black newspapers and magazines as a way of mass mobilization and education. The establishment of BFB, a bank owned and controlled by blacks to primarily serve the black community, was a logical extension of the collective organizing that black leaders were engaged in due to the spatial, social and financial exclusion they faced under their half-free circumstances.

Uncertainty in Public Spaces

As a result of the refracted racism in LA, one of the major issues that plagued black Angelenos in the early 20th century was the uncertainty that African Americans felt when encountering public places. In the South, the all-encompassing Jim Crow laws made it clear exactly where blacks were welcomed. But in LA, it was often unclear when African Americans would be barred from a public facility and/or when a white person would mistreat blacks in public. An interviewee with a black Angeleno in J. Max Bond’s The Negro in Los Angeles
provides examples of this uncertainty:

I belong to several white organizations and frequently I am invited to functions
given by the other group. I don’t go because I’m never sure of just what will
happen. There might be a Southerner present whose attitude will spoil the whole
affair for me. At any rate, when I’m with Negroes, I’m sure of myself (113, italics
mine).

Furthermore, Bond writes, “The uncertainty involved in attending even commercialized
entertainments is always a deterrent to Negroes. One is never sure that the hotel in which a
lecture is given or an exhibit is displayed will admit Negroes or whether the management of the
establishment where a public banquet is being held will serve them” (1936:113).

Decisions such as the Shenk Rule of 1912 represented the attitudes of whites whose
refracted racism caused anxiety African Americans experienced in public places. C.W. Holden
was an African American entrepreneur who was invited by a white acquaintance to a public
saloon. Both men ordered beers, but the bartender charged Holden a dollar while charging the
white acquaintance a nickel. Holden’s white friend asked the mayor to revoke the saloon’s
license, but he refused citing City Attorney John Shenk’s rationale that “it was neither extortion
or a violation of the Civil Rights Act to charge a Negro more for an article than a white man”
(Nason McBroom 2006:64). Shenk’s decision became known as the Shenk Rule of 1912 and it
emboldened and legitimated the practice of businesses charging blacks exorbitant prices because
it supported the owner’s right to discriminate (Sides 2006:12).\footnote{Jefferson L. Edmonds, a propagandist of the California Dream for African Americans, wrote
passionate editorials condemning the Shenk Rule in the popular monthly black news magazine,
The Liberator, for months afterward. He encouraged blacks to vote against Shenk in his bid for
mayor in 1913 which resulted in Shenk’s defeat by a small margin (Bunch 2001:142). (See also,
Nason McBroome, Delores. 2006. “All Men Up and No Man Down’: Black Angelenos
Confront Refracted Racism, 1900-1940.” City of Promise: Race and Historical Change in Los
Angeles. Eds. Martin Shiesl and Mark M. Dodge.)}

Such examples show how the creation of a black bank solved a major issue for black Angelenos
living in a half-free environment: it provided a comfortable place where blacks would feel
confident that they would not be mistreated or humiliated. (As seen in Ch. 5, current customers
of BFB, as well as the staff, still describe this “comfort” as one of the main attractions of the bank.) But the ambivalence and lack of access to public spaces such as restaurants, bars, and hotels was only one of many restrictions blacks faced—as the Shenk Rule was only one of many examples of institutionalized racism in California. As George Lipsitz explains: “The state constitution prevented African Americans from voting, holding public office, testifying in court in cases involving whites, serving on juries, attending public schools, or homesteading land. As with other groups, denial of African American’s citizenship rights affected their opportunities to accumulate assets” (2011:233).

III. Segregation and the Coupling of Race and Space

The Moral and Economic Imperative of Segregation and the Historic Valuing of Homogeneity

One of the more dire legacies of the city’s half-free atmosphere was the coupling of race and space through racial residential segregation, a practice that relegated minorities to undesirable areas and all but ensured their financial, spatial and social exclusion. The issue of residential segregation was one of the most important issues that blacks had to face because of its far reaching consequences as housing dictates other important aspects of life such as access to quality schooling, jobs and other financial opportunities, such as home mortgage loans. As mentioned above, in the late 19th century, part of the draw for African Americans to migrate to Southern California was the lack of residential segregation (Flamming 2006). But even though LA was not fully segregated, there was nevertheless racial sorting. The coupling of race and space in the west—despite its reputation as a land of freedom—began shortly after the U.S.’s conquest of Mexico in 1848 when officials sold land to whites and restricted Mexicans to certain parts of town (Sanchez 2007:3). In the late 19th century, white city boosters who were trying to lure Anglo migrants to come to California tried to keep the newcomers from areas where the Mexican
and Chinese populations were relegated.\textsuperscript{29}

As George Lipsitz discusses in \textit{How Racism Takes Place (2011)}, the moral imperative and economic interest to segregate racial minorities was based on the idea that land was most valuable as white homogeneous spaces. Citing the work of historian Noble, Lipsitz asserts that in the U.S., the moral and economic imperative to segregate racial minorities can be traced to the European conquest and settlement of North America in the 17\textsuperscript{th} century. He writes: “In order to have pure and homogeneous spaces, ‘impure’ populations have to be removed and marginalized” (Lipsitz 2011:29). In the U.S., this coupling process is seen in slavery and reinforced through Jim Crow segregation post-emancipation. As I will discuss further below, in LA, this racial sorting would become systemic and codified by the mid-1940s, when race becomes institutionalized through underhanded legal methods, business strategies and cultural practices used by the federal government, real estate boards, community organizations and white home owners who also used mob violence to keep African Americans from moving into “white” neighborhoods (Lipsitz 1998).

\textbf{Racial Patterning of Los Angeles: Segregation in the 20\textsuperscript{th} Century}

According to the U.S. Census, there were only 2,821 African Americans in Los Angeles County in 1900, making up only 2\% of the population. In fact, up to the 1930 census, African Americans consistently made up 2\% of the county. But with the lure of higher paying jobs and the severe labor shortage in LA due to the wartime boom, the second wave of black migration in the mid-20\textsuperscript{th} century increased the black population to 70,000 by 1946, the year that BFB obtained its charter. According to historian Josh Sides (2006), LA was a unique place for African Americans in the mid-20\textsuperscript{th} century. In addition to being a place where the “Western ideal” of

\textsuperscript{29}Furthermore, in 1879, California’s newly minted constitution “allowed incorporated cities and towns to remove and prohibit the creation of Chinese neighborhoods in the state” and in the 1870s, there were “Cubic Air Acts” in Los Angeles and San Francisco that targeted the Chinese boardinghouses and apartments because they were seen as wretchedly overcrowded and dirty (Sanchez 2007:3).
freedom and opportunity collided with refracted racism, LA had the confluence of three characteristics: 1) a great racial diversity as there were a mixture of immigrants from Latin America, Asian, and Europe, 2) a booming economy from the tremendous growth in military production while other cities experienced downturns in manufacturing jobs, and 3) a spread out urban landscape. Each of these aspects of LA shaped the strategies mainstream whites used to segregate. As Sanchez (2007) argues, LA became a “leading innovator of methods of racial residential restriction in the United States” in part because of its rapid growth in the late 19th and early 20th century. The extent of the legal and extra-legal means of ensuring the racial patterning of the city was blatant as it was effective.

In the mid-20th century, housing segregation kept the majority of blacks concentrated in the Central Avenue district, where BFB was established. In fact, in 1950, 78% of all blacks in the county lived in Los Angeles City. (And only Pasadena, Long Beach, Santa Monica, Compton and Monrovia had more than 1,000 blacks.) This segregation was indeed partly due to the rise of the Klu Klux Klan (KKK) in Southern California during the 1920s. Their activities increased in the 1940s as and they not only used intimidation and violence to keep the city’s residential areas segregated, but kept jobs segregated as well, by for instance, organizing against the hiring and promoting of African Americans in the shipyards. But perhaps even more insidious and effective strategies than the KKK’s were the strategies of government officials, real estate and banking professionals and individual homeowners and associations (Hernandez 2012; Sanchez 2007; Lipsitz 1998).

One striking example of the extent of these coordinated efforts to segregate blacks was the quashing of the Gordon Manors project. Dr. Wilbur Gordon was one of the first black physicians to practice in the State of California (Beasley 1919:246) and one of the founders of Liberty Building and Loan Association (est. 1924), the first black bank established in the West (Flamming 2006:240). As a prominent and wealthy leader in his community, he dreamed of
creating a black community outside the Central Avenue district with luxurious and spacious homes. In 1925, Dr. Gordon assembled a group of nine black investors and in cooperation with a white bank (and later, a group of white financiers), he purchased 213 acres of undeveloped land in southwestern part of Los Angeles County to build Gordon Manors, a subdivision that was going to be “Wilshire or Hollywood” for African Americans (Flamming 2006:240). The land cost approximately $700,000 and was roughly seven miles away from 12th and Central in South Los Angeles (SLA) (Flamming 2006:240). The residents of the affluent neighborhood of Rancho Palos Verdes protested the building of Gordon Manors even though it was a good distance away (there was even an oil refinery in between the proposed site of Gordon Manors and Rancho Palos Verdes). Armed with lawyers, these residents successfully pressured the Los Angeles County Board of Supervisors to condemn the piece of land and return the money to the investors. According to Flamming, the residents were wealthy white owners of lavish homes and ranches in Rancho Palos Verdes and “[t]hey did not want Negroes that close, even in $30,000 homes” (2006:240). The failure of Gordon’s project underscores the discrimination that blacks faced in that era and it also serves as an example of how everyday Angelenos, local politicians, and professionals contributed to racializing the residential pattern of LA. Years later after Dr. Gordon passed away, his widow, Cynthia Belle Gordon, became one of the original founders of BFB.

**Systematic Residential Restrictions: Racially Restrictive Covenants and Zoning Ordinances**

In 20th century LA, the open and coordinated system of segregation was condoned by the judicial system. This system of keeping racial minorities in particular residential areas coincided with the first substantial wave of black migration into LA. (And as detailed in the following chapter, many of the BFB founders and/or their families were part of this first wave.) The primary and most effective mechanism to segregate was the race restrictive covenant. Race restrictive covenants were a type of deed restrictions that were used to control how properties would be used. These covenants typically read: “No part of said property or any building thereon
shall be used or occupied by any person not belonging to the Caucasian race, as owner, lease, licensee or tenant or in any other capacity except as servant” (T-Races: June 16, 1926).30

The institutionalization of segregation began with a series of court cases that legitimized the use of racially restrictive covenants. Restrictive covenants were first used in mid-18th century England by nobles who were subdividing their land and wanted to maintain control over who could use the land and for what (See Hernandez 2012; Lipsitz 2011; Sanchez 2007). In the US, restrictive covenants were first used in the East Coast to maintain exclusivity to certain neighborhoods, but were not popular until the rulings of a few federal and state courts—as well as the U.S. Supreme Court—that gave people what historian George Sanchez (2007) calls the “green light” to use them for racial segregation. One such case took place in 1892 in California when Lee Sing sued the city of Ventura for prohibiting the Chinese from living in its jurisdiction. Sing lost when the federal courts ruled that although the state and courts cannot discriminate, private individuals can choose to sell to only certain racial groups by using contracts. In 1902, the first racially restrictive covenant was filed in LA using “the all-inclusive term of ‘non-Caucasians’ to define all who could not purchase property” (Sanchez 2007:3). Sanchez writes, “Within a few years, cities throughout southern California applied restrictive covenants against Chinese, Japanese, Mexicans, African Americans, and sometimes Armenians, Jews, Italians, and others seen at the time as racially undesirable” (2007:3).

The usage of restrictive covenants was gaining popularity in LA partly due to the influence of the real estate industry, as represented by the powerful Los Angeles Realty Board (LARB), which was established in 1903. LARB organized the real estate industry by advocating the usage of as many racial restrictive covenants in as many neighborhoods as possible. At the same time, it successfully lobbied modern zoning ordinances that prohibited industrial businesses

30 I wish to thank Richard Marciano and the Testbed for Redlining Archives of California’s Exclusionary Spaces (T-Races) Project for access to maps and records of the Federal Home Loan Bank Board, National Archives: Record Group 195. http://salt.unc.edu/T-RACES/
from moving into residential areas (Sanchez 2007). A national leader in modern zoning ordinances, the zoning requirement allegedly “protected the tranquility of residential areas”—the tranquility reserved only for certain racial groups. That is, as those who lived in homogenous white areas of the city enjoyed further protection of their neighborhoods to remain quiet and clean, the zoning ordinances further exacerbated the coupling of race and space that relegated racial minorities in the undesirable areas. Used in combination with restrictive covenants, the zoning ordinances effectively reinforced the relegation of minorities who were already relegated into “immigrant towns” (e.g., Chinatown)—places which were often near industrial areas and noisy places such as train tracks (which served as starting points for colored migrants). Furthermore, these ordinances and covenants—as I explain below—also penalized mixed race neighborhoods by labeling them as inherently “risky” and denying them mortgage loans.

As Sanchez (2007) points out, the instrumental role of the LARB can been seen in 1919 after the California State Supreme Court made the restrictive covenants against purchasing property illegal (Los Angeles Investment Co. v. Gary). In response to this ruling, the LARB coordinated with other realty boards to change the language of restrictive covenants to bar the occupancy of property, which in effect made it impossible for blacks to reside in a house in a restricted neighborhood even if they were able to purchase it. By 1920, most of the houses in southern California had racial restrictive covenants attached to them. Sanchez writes, “The racial covenants, coupled with other exclusionary measures, were highly effective by the 1920s, in both affluent and working class communities throughout southern California, with few African Americans, Latinos, or Asian Americans living outside of highly restricted areas” (2007:4).

The Institutionalization of Race in the Mortgage Lending Industry: Home Owners Loan Corporation Security Map

In the late 1920s and early 1930s, while black leaders continued to organize on multiple fronts against their second class status, the federal government instituted national programs in
response to the Great Depression of 1929. The Depression had caused an alarming rate of home foreclosures and the federal government established the Home Owners’ Loan Corporation (HOLC) in 1933 in an attempt to stabilize the national economy. The HOLC was charged with the task to create a uniform home appraisal system to refinance home mortgages and it relied on local members of the National Association of Real Estate Boards (NAERB) across the country to evaluate home values based on the neighborhood level. In a 1936 HOLC report, the HOLC described these members as “competent local real estate brokers and mortgage lenders, believed to represent a fair and composite opinion of the best qualified local people”.31 However, as Sanchez asserts, “Not surprisingly, given realty boards’ local prejudices, the racial makeup of a neighborhood came to be a significant part of that evaluation” (2007:5)

Based on the NAERB professionals’ evaluations, the HOLC published Confidential Residential Security Maps for all major cities. The maps showed which parts of the city was “first grade” (designated by the green areas), “second grade” (blue), “third grade” (yellow), and “fourth grade” (red). Red areas were “characterized by detrimental influences in a pronounced degree, undesirable population or infiltration of it”32 (italics mine). The HOLC discouraged mortgage lending in red areas because these areas were deemed too risky. When the Federal Housing Administration (FHA) was created in 1934 to regulate the interest rates and terms of federally insured mortgages, the FHA also used these maps to “redline” areas with high concentrations of racial minorities and therefore made it nearly impossible for residents of those areas to obtain FHA loans.

The HOLC used the area description surveys done by local evaluators to draw the

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31 Quote from "HOLC Division of Research and Statistics with Cooperation of the Appraisal Department, San Diego, October 20, 1936." (part of the San Diego redlining files). Source: Testbed for the Redlining Archives of California’s Exclusionary Spaces (T-Races) Project

security maps. An examination of the area descriptions shows an explicit reference to the racial compositions of the neighborhoods being evaluated. Evaluators writing the area descriptions devalued “foreign families” and “nationalities” that were not of white, Anglo-Saxon origin. For example, the evaluator for the redlined area Boyle Heights noted that the area had a population consisting of “Russian, Polish & Armenian Jews, Slavs, Greeks, American Mexicans, Japanese and Italians.” Furthermore, the evaluator writes, “This is a ‘melting pot’ area and is literally honeycombed with diverse and subversive racial elements. It is seriously doubted whether there is a single block in the area which does not contain detrimental racial elements” (Area Description: Boyle Heights (Area No. D-53) 4-19-1939. Source: T-Races). In another area in Los Angeles County, the evaluators reported that there were “100%” foreign families and that there was an “[i]nfiltration of goats, rabbits and dark skinned babies.” The evaluator continued: “This is an extremely old Mexican shack district…Like the ‘Army mule’ it has no pride of ancestry nor hope of posterity. It is a typical semi tropical countryside ‘slum’” (Area Description: San Gabriel Wash & Whittier Way (Area No. D-57) 4-26-1939. Source: T-Races). In another area that was deemed a security grade of 4+ (“high red”), the racial implications in the evaluation of the area were clear:

Since deed restrictions began to expire an infiltration of subversive elements started and has since gained in volume and has definitely lowered living standards…Population is extremely heterogeneous, there being a concentration of Japanese south Temple St. and one of Negroes west of Alvarado between Bellevue and Beverly Blvd. In addition to these concentrations there is a sprinkling of Russians and Mexicans. These adverse racial influences which are noticeably increasing inevitably presage lower values, rentals and a rapid decrease of residential desirability. While not blighted in its entirety it is not felt that the area qualifies higher than a ‘high red’ grade. (Area Description: Los Angeles (Area No. D-33) 3-1-1939. Source: T-Races)

On the contrary, the location of Palos Verdes Estates and Hollywood Riviera—where the residents had coordinated their efforts to dismantle Dr. Gordon’s dream of a “black Wilshire or Hollywood”—had a security grade of “1st” and had 0% “Foreign Families” and 0% “Negro.” This
location had “ample” mortgage funds and was characterized as follows: “Restrict ownership to the Caucasian race in perpetuity. All provisions are strictly enforced…The location has great charm and offers a magnificent view of the Pacific Ocean…Architectural designs are of the best and population is highly homogeneous. The area is protected from the adverse influence of area C-161 to the north by virtue of the hilly terrain.” (Area Description: Palos Verdes Estates and Hollywood Riviera (Area No. A-59) 3-20-1939. Source: T-Races).

The 1939 security map of LA shows the area known as South Central—where the Central District was located (and BFB was established)—as composed entirely of red and yellow areas that had limited or no mortgage fund availability33—even though mortgage funding in the financial industry was abundant in LA at the time.34 (See Figure 2.1.) HOLC evaluators gave a security grade of “4th –” or “low red” to the Central Avenue District. Evaluators described the area as being composed of 40% “Foreign Families” and 50% “Negro.” The population was made

33 In 1939, the black population was still small, confined to redlined “D” areas and did not own property where whites lived. Therefore, blacks were not seen as a “major racial problem” in Los Angeles. (But at that time, the “major racial problem existing in Los Angeles...[was seen as being] created by the large numbers of Mexicans.”) The report notes: Negroes do not constitute a racial problem in the areas as a whole, for although they too have been increasingly rapidly in number, their ratio to the total county population has remained constant since 1890. The negro race is fairly well confined to a few sections within the county. They occupy one large area southwest of the business district in Los Angeles (Security Areas D50-52) and three smaller sections scattered north to Hollywood (Security Areas D30-33-34-38); they also occupy sections in northwest Pasadena (Security Areas D9-10) and southeast Monrovia (D14), and are scattered through southeast Santa Monica (Areas D23-24). Although Beverly Hills shows a larger than average number of negroes, these are made up entirely of servants and they do not own property in the community. (Source: T-Races)

34 According to a 1939 survey by the HOLC, there was “vicious competition” among the savings and loan associations: “There appears to be an undesirably large number of associations operating in the area from the standpoint of the needs of the community for mortgage funds” (The Savings and Loan Situation and HOLC Activities in Metropolitan Los Angeles, Based on a Survey of Economic, Real Estate and Mortgage Finance Conditions (Field Report dated October 10, 1939, p. 1.).) From January 1937 to May 1939, FHA loans represented 47% of the total amount of credit given by all financial institutions in Los Angeles. (The Savings and Loan Situation and HOLC Activities in Metropolitan Los Angeles, Based on a Survey of Economic, Real Estate and Mortgage Finance Conditions (Field Report dated October 10, 1939, p. 5)).
up of “Mexicans, Japanese and low class Italians,” a population that the evaluators described as “uniformly of poor quality.” (See Figure 2.2.)


Figure 2.1: 1938 Home Owners’ Loan Corporation Residential Security Map for South Los Angeles (formerly known as South Central) and other areas where African Americans resided. Source: Testbed for Redlining Archives of California’s Exclusionary Spaces (T-Races) Project.

The value of maintaining white homogeneity as a moral and economic imperative seen in the security area maps reflected the widespread and accepted values of professionals in real estate, federal agencies and banks. The FHA’s Underwriting Manual trained professionals to understand the principle of racial homogeneity: "Important among adverse influences are the following: infiltration of inharmonious racial or nationality groups; the presence of smoke, odors, fog, etc." (FHA Underwriting Manual (August 1, 1935) section 309, section 310). Furthermore, Frederick Babcock, Director of the FHA Underwriting Division, admonishes underwriters in a 1938 publication:
If a neighborhood is to remain stable, it is necessary that properties shall continue to be occupied by the same racial and social classes. Changes in social or racial occupancy contribute to neighborhood instability and the decline of value levels.\(^\text{35}\)

The appraisal process is critical in the mortgage industry because it helps determine the value of a home, thereby affecting who will receive a mortgage and also the terms of the mortgage as the appraisal informs the lender the level of risk the lender will use to make a lending decision. Therefore, as Hernandez writes, “The home appraisal was one of the most important devices used in establishing the racial composition of neighborhoods as well as their future economic stability” (2012:65-66).

The discriminatory security maps were used hand-in-hand with the legally binding restrictive covenants. The crucial role of restrictive covenants in maintaining this system was no secret. The FHA’s Underwriting Manual instructed underwriters that "Protection against adverse influences is obtained by the existence and enforcement of proper zoning regulations and appropriate deed restrictions" (FHA Underwriting Manual (August 1, 1935) section 309, section 310, (italics mine)). In fact, the use of restrictive covenants was so important in the FHA’s system that the Principal Housing Economist, Homer Hoyt, instructed the proper insertion of the deed restriction so that there will be no question that it will be upheld:

The usual manner of imposing a deed restriction is to insert an appropriate provision in the deed by which property is transferred. The restriction should be in record form in the chain of title of each lot. Otherwise if a lot is sold to a purchaser who has no knowledge of the restriction, he will not be bound by it. (Division of Economics & Statistics FHA, "Principles of Urban Real Estate" (1948), p. 194)

These racially bigoted security maps formed the basis of the birth of the mortgage industry and helped institutionalized race into the financial and real estate industries through the practice of redlining. Sanchez asserts, “In this way, the racial value system of realtors was codified into

\(^{35}\) Frederick Babcock, Director of FHA Underwriting Division (April, 1938), "The Journal of the American Institute of Real Estate Appraisers of the National Association of Real Estate Boards," Volume VI, April 1938, Number 2, p. 137, "Techniques of Residential Location Rating."
federal state policy, which was then reflected back into the private mortgage system for decades to come. The residential security maps that were produced by the HOLC became the standard by which all lenders evaluated future mortgage applications, including those predicated on the loan guarantees of the newly established Federal Housing Authority” (2007:6).

IV. Segregation in the Post-World War II Era: The Outflow of Whites and the Locking-in of Racial Minorities in Previously Racially Mixed Areas

From the 1940s to the late 1960s, 5 million African Americans migrated out of the South. During that same period of time, black population in LA grew from 63,744 to almost 763,000 (Sides 2006:111). As mentioned above, in addition to the lure of relatively good paying jobs in LA, African Americans were searching for the promise of equality in the California Dream. Sides asserts that African Americans’ quest for dignity in the post-war era centered around a few primary issues: equal access to jobs, fair housing policies and the opportunity to send their children to good schools and political representation (2006:113). The housing crisis had reached disastrous levels for African Americans in LA even before the end of WWII. The black population had nearly doubled by the end of 1943 to 70,000, but blacks were still restricted to the same roughly 5 percent of space with inadequate facilities and decrepit housing. Despite the severity of the overcrowding situation during the war, blacks were only able to move to the former Little Tokyo, left empty by the internment of the Japanese. By 1944, the neighborhood, renamed “Bronzeville,” had grown to 80,000 residents from the 30,000 residents before the war. The timing of the founding of BFB coincided with the large influx of black migrants to LA. By 1946, the year that the BFB founders received their bank charter, the population of African Americans in LA had reached a critical mass and the continuous migration of blacks to LA in the 1940s had spurred the spread of racial covenants (de Graaf 1962:221). In fact, in the first six months of 1946, ten Black families who managed to move into White neighborhoods had crosses burned on their lawn (Collins 1980:29).
As the masses of veterans returned home at the end of WWII, the country experienced a huge shortage of housing. In response, the government began building new suburban communities outside the overcrowded urban areas. The homes in the suburban communities were spacious—some equipped with luxurious, modern conveniences such as washing machines, dryers, and dishwashers—and provided access to new parks and schools. The government also offered affordable loans for those purchasing such homes, with special preferences for veterans. But the suburbs were for whites only, as the people who sold these homes turned away black applicants. Collins (1980) writes, “In some instances, even if the contractor was open to the idea of allowing even nonwhites, they would eventually succumb to the pressure of white residents to restrict the occupancy to whites only” (27). Moreover, the government did not provide loans to blacks even if they were veterans, so while black veterans were confined to living in cramped and old apartments in the city, many white veterans enjoyed their new homes in the suburbs—paying less for their mortgages than the black veterans paid for rent (Lipstiz 1998).

African Americans continued to fight segregation in the courts through a series of lawsuits in the 1940s. The rulings in Shelly v. Kramer (334 U.S. 72 (1948)) and Barrows v. Jackson (346 U.S. 249 (1953)) finally eliminated the judicial system’s ability to enforce racially restrictive covenants. But in some ways, this ruling came too late and did too little. Decades of de jure and de facto segregation and discrimination had set-up black communities to failure and dilapidation. By the time courts found racially restrictive covenants unenforceable in Shelly v. Kramer (1948), the racial patterning of LA was eerily similar to the FHA’s security maps and the legal defeat of restrictive covenants was met with much resistance. For example, the local homeowners associations and private citizens increased their violence and intimidation to restrict access to minorities. Before Shelly, these “home improvement” associations tried to cover their

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36 See also “Race: The Power of an Illusion; Episode Three: The House We Live In,” (2003) Executive Producer Larry Adelman, PBS.
Figure 2.2: 1939 Area Security Description Survey for Central Avenue District (Area No. D-52) 3-3-1939. Source: Testbed for Redlining Archives of California’s Exclusionary Spaces (TRaces) Project.
neighborhoods with racial covenants. After Shelly, “[l]ocal white homeowners’ associations that immediately surrounded the increasingly crowded black neighborhoods increased the legal and violent vigilance to keep blacks from buying or renting in their neighborhoods” (Sanchez 2007:7). Strategies to intimidate blacks included: mob gatherings, cross burnings, bombings, vandalism, death threats, property damage, harassing phone calls, and physical violence. As I will elaborate in the next chapter, BFB founders actively contributed to these lawsuits by fundraising for the organizations such as the NAACP that often supported these lawsuits and the founders also fell victim to such intimidation when they tried to move beyond the segregated areas. (See for example, the biography of H. Claude Hudson in Ch. 3.)

Segregation was so fiercely enforced that from 1950 to 1960, only 1,437 blacks (or 0.87%) were able to move out of the Central District area. In the city of Compton, white homeowners were able to keep Compton “white” so that there were only approximately 50 blacks in a city of 45,000 residents despite its close proximity to the overcrowded black areas. In “The History of Segregation in Los Angeles” (2007), Sanchez tells a story of a black Korean War veteran named Alfred Jackson who was welcomed by an angry white mob when he moved to his new home with his family in Compton in 1953. After the Compton police “told the couple that they could not guarantee” their safety, Jackson, his wife and a friend missed work to take turns protecting the home with pistols and a shotgun. And even after the mob dispersed, the Jackson family continued to be verbally attacked for months afterward. Meanwhile, the Los Angeles Realty Board promoted a nationwide campaign that encouraged realtors to use “corporate contract agreements” and “neighborhood protective associations” to organize homeowners to restrict the sale of homes in their neighborhoods. Realty boards not only denied allowing black realtors to become members--for example, in 1960 the Los Angeles Realty Board did not have a

single black member among 2,000 members—but they also punished and expelled members who sold home to racial minorities outside the designated black areas. (See Sanchez 2007.)

When BFB opened its doors for business in 1947, the ethnic and racial patterning of the city was beginning to shift: in the post-WWII era, whiteness was beginning to become redefined to include previously denigrated white ethnics (e.g., Jews, Italians, Russians, etc.). This rearticulation of race was most clearly seen in the strategies of segregation: white ethnics were allowed to move out of urban areas and into newly built suburbs while racial minorities were not. As various strategies kept African Americans and Latinos hemmed into the segregated areas of East and SLA, non-WASP white ethnics began to move out of these previously racially diverse areas during and after WWII. Sanchez writes, “This system was used for decades—and in that time, those who could leave these mixed areas did for financial reasons—leaving behind blacks and Latinos” (2004:634-640). In “What’s Good for Boyle Heights is Good for the Jews” (2004), Sanchez notes that while the Jewish population dropped 73% by 1955, the Mexican population increased to roughly half of the neighborhood. By 1958, Watts was composed of 95% blacks even though before WWII, they only made up a third of the population. Jews, Italians and other white ethnics moved to the Westside and emerging suburbs of the San Fernando Valley. As Sanchez points out, “The new color line of the post-war era placed Jews and Italians decidedly into the “white race,” but continued to exclude Blacks, Asians, and most Mexicans” (2007:7). In SLA, African Americans made up 95% of the area by 1958 when only 10 years prior, the population was nearly equal number of whites, African Americans, Mexican immigrants and Mexican Americans (Sides 2006:109). This is partly because whites tolerated other racial groups such as Latinos and Asian Americans and allowed them to move out of SLA and closer to their neighborhoods, but blacks were not permitted to do so (Sides 2006:111).

These principles also applied to federally funded public housing. Homeowners

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associations, real estate entrepreneurs, and others pressured the Los Angeles City Housing Authority to disallow African Americans to live in government housing that were built in all-white neighborhoods (Collins 1980:27). Moreover, of the limited number of public housing units built, most were in racially mixed areas and were abandoned quickly afterward. As the federal government became more involved in solving the housing crisis of the post-WWII years and the general economy boomed, blacks found themselves cut-off from other financial services and opportunities, such as wealth creation through homeownership and good paying jobs.

While African Americans continued to be hemmed into urban areas, they faced unfair and unequal credit opportunities. In the 1950s and 1960s, when some black Angelenos were able to move into the middle class, many of them only had the option of signing “land contracts” with private real estate speculators in order to buy a home because mainstream banks refused to provide African Americans with credit (Bradford and Marino 1977; Helper 1969:45). These speculators would often buy homes by “blockbusting” (i.e., scaring white homeowners to sell their properties at a low price with the “threat” that African Americans were going to move into their neighborhood) and then re-selling the same homes to African Americans at a much higher price. Under the “land contract,” the homebuyer would make monthly payments to the speculator and if the homebuyer missed even one payment, they would automatically lose their homes to the speculator. Furthermore, since the contract was not a formal mortgage, the homebuyer would not build equity as they made payments. As Immergluck points out, “[a]ccess to fairly priced credit is a critical component to a community’s economic infrastructure” (2004:5). It affects families looking to buy a home, small business owners trying to build their businesses (Bates 1997) and also has long term effects on neighborhood economic development—as seen in historically African American neighborhoods which continue to have higher denial rates for business loans.
Although it was the lure of good paying jobs associated with the wartime industries attracted many African Americans to migrate to LA during WWII, blacks actually faced mixed opportunities. The severe labor shortage in the wartime industries (e.g., shipbuilding, aircraft and electronic industries and other industries involved in the production of the steel, rubber and mechanical components, etc.) allowed them to get jobs which paid better than other jobs in other parts of the country, but these jobs were at the lowest ranks, paid the least money and had the most undesirable tasks and shifts. Because many blacks were unskilled laborers with low seniority, a disproportionate number of them were unemployed when these wartime industries closed after the war. Furthermore, when white veterans returning from war increased the labor supply, black labor was once again disregarded—especially in private businesses where there was no incentive to hire minorities (Collins 1980:23-24). In sum, in the post-WWII era, African Americans were segregated in dilapidated urban areas with one of the worst employment rates. It was in this context that a handful of successful community leaders delved into their work at Broadway Federal Bank in an effort of expanding opportunities for the black community. After starting their business in 1947 in a three-room office, BFB’s customers grew rapidly. By 1954, the bank was so successful they purchased a building in the Central District on 45th and Broadway. (The building served as the bank’s headquarters until it was burned down in 1992.) The bank’s continued success led to the building of another branch designed by co-founder, architect and board member, Paul R. Williams. It opened in 1966 in the Mid-Town Shopping Center.

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39 Even after controlling for characteristics such as credit history, not only do black businesses in African American neighborhoods have higher denial rates but businesses located in black neighborhoods receive fewer loans than in white neighborhoods (Immergluck 2004).
Banks and the Continued Decapitalization of Black Communities: The Decoupling of Race, Space, Class Through Black Banking

The coupling of race and space had severe economic consequences for the African Americans (and other minorities) left behind in the abandoned urban areas, such as SLA. In addition to the legal and extra-legal strategies that real estate professionals and private individuals used to enforce and promulgate segregation, banks played a key role in this coordinated effort. Since segregation meant that blacks were only allowed to live, rent and buy in certain “black” neighborhoods with inferior schools and a lack of access to employment, blacks were not given mortgages from mainstream banks despite their creditworthiness and regardless if they wanted to purchase in a “black” neighborhood because the areas they lived in were “redlined.”

Furthermore, as mentioned above, although these mainstream banks would allow African Americans to deposit their money, they only lend that money to white depositors. On one hand, bankers were unwilling to break the racial lines in part because they did not want to alienate whites who would not tolerate nonwhites moving into their neighborhoods and/or they found it to be to their financial interest to maintain segregation. On the other hand, bankers were also relying on the same logic and model that the FHA, HOLC and the real estate industry used that treated race “as an essential variable to determining property value and as a key indicator of risk” (Hernandez 2012:86-87).

The founders of BFB sought to counter the racial assumptions and stereotypes that the banking industry had used as a standard for conducting business. In other words, as the mainstream banking industry continued to penalize blacks for being black, BFB was established to neutralize this automatic racial penalty. In doing so, the founders of BFB were trying to decouple race from space. But they also had recognized how the coupling of race and space affected class or wealth accumulation. As Jesus Hernandez (2012) explains:

New Deal housing finance under FHA oversight was a major breakthrough in
stabilizing the housing market and the national economy during the Depression years. FHA financing was critical to expanding wealth accumulation via homeownership and expanding the formation of a new middle-class population. But housing finance during the formative years of urban development in the U.S. produced wealth opportunities conditioned upon race. (87)

In addition to being barred from taking advantage of the low risk, federally subsidized home mortgage programs that helped millions of white Americans accumulate wealth through homeownership, African Americans also pay an additional “racial tax” through continued housing discrimination. George Lipsitz (2011) explains:

The pervasiveness of housing discrimination and mortgage redlining sets in motion a range of practices that decapitalize Black communities. Impediments to homeownership make it harder to accumulate capital for business start-ups. Money made from businesses in the Black community flows to other neighborhoods. A study by sociologist John Yinger in 1997 estimated that housing discrimination imposed a ‘racial tax’ on Black households amounting to an aggregate three billion dollars per year. (34)

In other words, being black means that one is likely living in a resource-poor black community and that decreases one’s probability to accumulate wealth. Social capital literature, such as Haynes and Hernandez (2008), shows that living in resource-poor neighborhoods reduces the chances of opportunities to good paying jobs that exist outside the resource-poor neighborhood. Therefore, class also becomes coupled with race and space. This overlapping of race, class and space ends up playing a significant role in shaping the challenges that the BFB continue to face as we see in the following chapters. BFB was designed to decouple race from space—so that one is not judged by the color of her skin, or the particular neighborhood one lived in. By providing home mortgages and other financial services, BFB was also designed to expand the opportunities for blacks to buy homes and eventually expand the black middle class.

V. Conclusion

The coupling of race, space and class in LA was produced by a system of legal strategies, cultural and social norms, institutional values, official policies, sanctions, threats and even violence. Various actors sought to realize the moral and economic imperative of keeping
neighborhoods homogeneous—a homogeneity that was based not only on whiteness, but before the mid-1940s, a whiteness that reflected the social hierarchy that placed the American born white, Anglo-Saxon Protestants at the top and other white ethnics grouped with racial minorities. (Other white ethnics, such as Jews and Italians, who were previously seen as “inharmonious” and “infiltrating,” and hence singled out for exclusion, were increasingly accepted into the “white” category when they were allowed to move out of the racially mixed “redlined” areas and into white suburbs in the mid-20th century.) As George Sanchez (2007) comments, a historical view of racial patterning in LA shows a “longstanding pattern of organized and systematic discrimination in housing which produced racial segregation in southern California long before the Cold War era and a pattern which has continued to the present” (2).

Restrictive covenants were effective mechanisms to segregate, but only because of the “open and coordinated” actions of homeowners, professional organizations, and the federal government who used a host of other strategies to reinforce the principle of homogeneity. As Hernandez argues, the important thing to remember is that restrictive covenants were used to allegedly maintain property values when there could have been other social values rather than racial homogeneity that could have been used to determine the value of a neighborhood (2012:51). The 1948 ruling in Shelly v. Kramer may have eradicated the use of restrictive covenants, but it did not eliminate the use of race in the real estate and lending industries. It was not until 1976 that the real estate industry stopped using race and national origin in appraisals and underwriting—a change that only came about because the intervention of the Department of Justice (United States v. The American Institute of Real Estate Appraisers, 442 F. Supp. 1072 (N.D. Ill. 1977). (76-1448 (N.D. Ill.).40 The action taken by the Department of Justice was

40 The Department of Justice sued the American Institute of Real Estate Appraisers, the Society of Real Estate Appraisers, the United States League of Savings Associations, and the Mortgage Bankers Association of America in using race as a factor in appraising property and in the underwriting process.
critical because from 1910 to 1976, the real estate industry “openly refused to provide nonwhites with access to housing credit and opportunities for home purchase—a process that promoted the intergenerational separation of the races and social closure” (Hernandez 2012: 84-85). The resistance to the anti-discriminatory laws in the real estate and lending industries continued for decades to come.41

The ineffectiveness of merely removing the explicit language of race from the official manuals and documents can be seen in the FHA’s elimination of race covenants as condition of loan approval in 1950 (Hernandez 2012). Despite the disuse of race covenants, the FHA nevertheless granted housing based on race. From 1950 to 1954, of the 125,000 FHA housing units constructed in Los Angeles County, only 3,000 (or 2.4%) were available to nonwhites (Sanchez 2007). Furthermore, while racially segregated communities were excluded from FHA loans, from 1932 to 1964, the FHA and Veterans Administration (VA) spent another $120 billion in new housing and “less than 2% of this real estate was available to nonwhite families” (Lipsitz 1998). Sanchez (2007) attributed this to the federal government’s refusal to institute mechanisms to prevent racial discrimination in FHA and VA home loans and hence continued their support of the racial status quo. Guy Stuart (2003) describes one critical way the racial status quo is maintained: “the underlying logic of neighborhood ‘uniformity’…[has] locked race into appraising guidelines” (59). As Lipsitz asserts: “Decades and centuries of segregation have taught well-off communities to hoard amenities and resources, to exclude allegedly undesirable populations, and to seek to maximize their own property values in competition with other communities” (2011:28). He continues, racialized spaces “make racial segregation seem desirable, natural, necessary, and inevitable. Even more important, these sites serve to produce

41 For example, seventy-two members of the defendant organizations continued to fight the 1976 settlement for their right to use race and national origin in evaluating the “soundness of home loans” and appraising homes until it was finally settled in 1978 (United States v. American Institute of Real Estate Appraisers, 590 F.2d 242 (7th Cir. 1978)).
and sustain racial meanings; they enact a public pedagogy about who belongs where and about what makes certain spaces desirable” (Lipsitz 2011:15). This in turn shapes people’s voting patterns and residential preferences.

The attitudes and logics that are based on moral and financial imperatives reflect the individual’s position in the coupling of race, space and class. It is the BFB leaders and staff’s resistance of these attitudes and logics that I will explore in the following chapters. The coupling of race, space and class through segregation that resulted in the spatial and financial exclusion of African Americans made the establishment of a black bank in the heart of the Central Avenue District not only a symbolic, but a logical and pragmatic response. The bank represented the independence and resilience of the black Angelenos. It also provided the much needed financial services that were lacking in the community. The founders used the bank as a vehicle to harness the community’s resources and re-wrote the criteria for credit so that it did not automatically penalize people on the basis of their skin color or the neighborhood they lived in. In particular, the founders wanted to empower the community by helping individuals achieve the American Dream of homeownership, an achievement that often leads to wealth accumulation. As we will see in the next chapter, the particular half-free conditions in LA inspired a specific form of resistance by the bank’s founders: financial activism through a black bank.
Chapter 3 Conscientious Capitalism: Pragmatism, Idealism, and Activism in Paving the Road to Full Citizenship and the Founding of Broadway Federal Bank

I. Introduction

We cannot have perfection. We have few saints. But we must have honest men or we die. We must have unselfish, far-seeing leadership or we fail.

Du Bois in “The Talented Tenth Memorial Address” (1903)

Broadway Federal Bank (BFB) was founded as both a pragmatic and idealistic response to the second class citizenship African Americans were facing in 20th century Los Angeles’s half-free environment. In many ways, the founders of BFB can be described as what W.E.B. Du Bois calls “The Talented Tenth,” a vanguard of educated, self-sacrificing, intellectual network of
leaders that worked to uplift the black masses through socioeconomic challenges.\textsuperscript{42} Gates and West (1997) argue that in writing about the Talented Tenth, Du Bois wanted “to emphasize group responsibility, for a collective economic, as well as cultural, entity, which would plan ‘for such economic revolution in industry and just distribution of wealth, as would make the rise of our [African American] group possible’” (130-131). The founders of BFB understood that their individual status was intimately tied to their racial group’s progress because of the racial identity that was imposed on them by the mainstream—regardless of the ethnic pride they had felt. Furthermore, their personal experiences with injustice made them even more determined to reshape the world into a better place for themselves as well as others.

The founding of the bank was a complex historical event involving a number of African American leaders with their own specific experiences of racism in pre-Civil Rights Movement America. Lawrence De Graaf (1962) argues that the history of black migration in Los Angeles mirrors the national process in which blacks gain electoral power in urban centers as they migrated out of the South. Many of the founders and their families escaped the racism of the South and migrated to the West only to find what Delores Nason McBroome (2006) calls the “refracted racism” of white Southerners who also migrated to the West, bringing along with them their prejudices. They had quintessentially American hopes and dreams of homeownership and quite literally, the West was the “end of the line” for blacks; as it was the farthest away from the plantations and the legacy of slavery of the South. Thus, the hopes of freedom and equality were attached to the West.

Raymond Williams (2007) asserts that the form of resistance of a group reflects the type of oppression the agents are trying to resist. Therefore, the half-free environment found in Los

\textsuperscript{42} As Du Bois writes in his essay, "The Talented Tenth: Memorial Address" (1903): “The Talented Tenth of the Negro race must be made leaders of thought and missionaries of culture among their people...The Negro race, like all other races, is going to be saved by its exceptional men.”
Angeles is a crucial part of BFB’s emergence story. The founders had realized that the city’s half-free environment presented opportunities to transform the U.S. into a truly free society and that they may someday be accepted as full citizens. In Los Angeles there was “just enough” equality, freedom and promise to permit activists to push for “more” equality: Black Angelenos not only raised money to donate to national causes brought on by the NAACP, but they creatively engaged in types of activism that activists in other regions such as in the South were not able to due to the intimidation and violence rampant there. It was due to this contradiction that not only provided the founders with the limited opportunity structures to make change, but the determination to break new grounds and to make life in the West into what was promised and what they had hoped for—black freedom and full citizenship. As Douglas Flamming (2006) asserts, social activism was a “way of life” for black Angelenos because they dedicated their lives to supporting “the cause.” He writes, “In black Los Angeles, the guiding ideal was pragmatic activism. Middle-class leaders embraced whatever seemed likely to help blacks live better lives in their half-free environment” (Flamming 2006:193). This led them to their idealistic, yet pragmatic approach in establishing a black bank as a vehicle to social change.43

With the guiding principles of idealism and pragmatism, the founders dedicated themselves to improving the lives of all African Americans by attacking racial discrimination on multiple fronts through their social and professional networks that provided resources and experience to the black leaders’ projects, such as the establishment of BFB. Having been active in black organizations for many years, the founders belonged in a network of successful and community-oriented leaders who were bound by their experience with racial discrimination and their dedication to achieving civil rights by sharing their resources of economic power and

43 As Flamming describes in his book Bound for Freedom, the leaders in Los Angeles were very pragmatic people, so much in fact that they rejected a nationally celebrated and hugely popular figure, Marcus Garvey, when he came around because black Angelenos on the whole were dissatisfied with Garvey’s lofty goals and provided insufficient evidence of how he would achieve his goals (2006:231-239).
privilege with the disadvantaged in order to give share opportunities with them when mainstream society would not. Therefore, BFB was established not to provide philanthropy. The founders, with their political and economic power and networks, could have invested their time and energy into other projects. Instead, they decided to open a bank—and not just any bank—but an ethnic bank that was owned and controlled by African Americans to serve African Americans in response to the legislative and political context of racial discrimination in the early 20th century. Organizing and running the bank was a form of what I call financial activism aimed at expanding the financial opportunities of those marginalized. The founders organized a black bank to redress the half-free environment black Angelenos endured in Los Angeles that all but ensured racial minorities’ exclusion from property rights (a longstanding strategy to exclude people of color from full citizenship) and financial opportunities. BFB agents sought to empower the black community the way that the federal government agencies “capitalized” white households through access to credit—as we saw in the previous chapter.

The founders’ pragmatic activism led them to engage in financial activism through ethnic banking because they were conscientious capitalists—people who believed in capitalism, but did not abide by the cut-throat nature of it because of the principles of social justice they also valued. The founders’ commitment to capitalism was due to their upbringing. Capitalism, like the dream of homeownership, was as quintessentially American—and so were the biographies of the founders. Their biographies could be read as Horatio Alger stories because they were able to “pull themselves by their bootstraps” and succeed through their tenacity, hard work and the chances strangers gave them despite the racial discrimination they faced. At the same time, they were dedicated to the principles of freedom, equal opportunity and empowerment. As conscientious capitalists, they believed in America as a democratic society and the potential of American exceptionalism—in what America could become. Reflecting the paradigm of the time, many black leaders thought that economic assimilation of blacks would lead to full citizenship.
Thus, the expansion of economic opportunities by making home mortgages available through BFB was a sensible plan. Furthermore, being only two generations from slavery, the founders were keenly aware of that the parameters of their second class citizenship were in part hinged on the right to own private property and to accumulate financial wealth. But regardless of whether or not all the founders believed that middle class respectability would grant black Angelenos full citizenship, racial inequality was an abstract issue with national, regional and local implications and inconsistencies. Therefore, as practical people, the founders recognized that access to and acquisition of capital (i.e., financial, social and cultural) was a good sure step in the right direction to black freedom.

Establishing a black bank was a way for the founders to share their varying forms of capital, not to mention a solid business proposition, since the black community sorely needed financial services. The founders invested in BFB with the purpose of combating African Americans’ urgent issues tied to financial power: residential segregation, low rates of homeownership, financial exclusion from mainstream banks—all manifestations of second class citizenship. As a bank owned and controlled by African Americans in the local community, the founders were hopeful BFB was going to at least address what they believed to be one of the most pressing issues facing blacks by providing direct and practical ways to help blacks build wealth and provide training and middle class jobs to black men and women in the banking industry. Furthermore, investing in a community based black bank made further sense in light of the African American community’s negative experiences with mainstream financial institutions as symbolized by the failure of the Freedman’s Bank, where many newly freed black slaves lost their hard earned savings along with their faith in mainstream financial institutions.

The leaders varied in their strategies in responding to racism, but they shared many things including their pragmatism, idealism and dedication to “the cause.” They chose to invest in a black bank in Los Angeles in the mid-20th century as a form of financial activism because the
particular half-free environment’s opportunity structure that allowed them to organize without the fear of lynching—although other forms of violence were used in Los Angeles. The founders’ experiences with Los Angeles’s style of racism brought them together to form social and professional networks that eventually helped them to leverage a collective-based bank. Engaging in financial activism through the bank was one important way for them to pursue their multi-pronged attack on racial inequality since the issues of employment, career mobility and housing had been particularly significant obstacles in the lives of the founders, despite their personal wealth. The individual experiences and motivations of these founders are particularly significant because the bank culture I call the logic of reinvestment was shaped and inspired by them—a bank culture that I will explore in detail in the following chapters.

II. The Intersection of Biography and Opportunity: Idealism, Pragmatism, and Activism

Three founders particularly stood out in the emergence of the bank because of their crucial roles in the community and at the bank. Through their individual biographies, I show the causes of their agency and I highlight the ways in which their individual motivations and concerns came together in their establishment of the bank and the bank culture. Although all the founders brought their idealism, pragmatism and activism to the group, each of the three founders highlighted below represented a value in particular. Paul R. Williams was a famous black architect whose idealism was perhaps his most important contribution to the group. H. Claude Hudson was a dentist, a lawyer and a social activist who led a “swim-in” that resulted in the desegregation of Southern California’s beaches. Thus, among other things, Hudson’s most significant contribution to the bank was his experience in social activism and political connections. M. Earl Grant was a self-made millionaire businessman who started a garbage collection business and a hog farm and became the first black man to be director on the board of the California Hog Farmer’s Association. He contributed his pragmatic thinking, business know-how and experience to the founding and success of the bank. They all understood the power and
importance of homeownership: Williams believed that homeownership was the backbone of a strong, democratic nation and using his gift in architecture, he published books to share how those with limited means could design modest, yet beautiful and comfortable homes. Grant believed that “black power” was rooted in “green power” or the ability for one to make a decent living and accumulate wealth. Hudson fought hard on all fronts to expand opportunities for African Americans. Thus, opening a black bank to address the issue of financial exclusion was merely a part of his life as a social activist.

But the founders’ strategies in fighting discrimination varied, as did their political ideologies. Even though Williams and Hudson were best friends, Williams had ties to high-ranking Republicans, while Hudson was a staunch Democratic. Williams worked within the political system, participating in the President’s Commission, whereas Hudson organized activities “outside” the political system—he staged protests, took on the police department and the school system, and campaigned for health care for the poor. (Hudson was arrested and was a known as a “radical” and at one point was smeared as a “communist.”) Grant broke barriers in the business world by networking with powerful white businessmen in the garbage disposal and hog farming industries. But despite their differences, to protect the Western Ideal and the encroaching “refracted” Jim Crow practices from the south, they were particularly committed to what Flamming calls the “black business ethos,” which encourages people to go against the status quo by supporting black businesses.

Paul R. Williams’s Idealism: Determination and the Importance of Homeownership

Despite the obstacles he faced in pursuing his dream of becoming an architect, Paul Revere Williams became a world renowned architect and is arguably still the most famous African American architect in the nation. He was known as “the Architect to the Stars” because he designed homes for Hollywood celebrities such as Frank Sinatra, Jr., Lucille Ball and CBS founder William S. Paley. Born in 1894 in Los Angeles, Williams’ parents moved to the West in
search of warm weather when doctors said it would help with their ailments. Williams was orphaned by the age of four and then lost his only sibling just a few years later. People began recognizing Williams’ talent even when he was in elementary school where he was known as the class artist. Despite his tragic beginnings, his foster mother, a woman who attended his church, supported and encouraged Williams to develop his artistic talent. Later, a friend of hers encouraged him to pursue architecture. When Williams told his high school counselor of his career aspiration, he was told, “Who’s ever heard of a black architect?” The counselor continued, “Don’t butt your head futilely against the stonewall of race prejudice.” Instead of listening to the counselor, Williams came to two conclusions: (1) “If I allow the fact that I am Negro to checkmate my will to do, no, I will inevitably form the habit of being defeated.” And (2) “[If]…prejudice is ever to be overcome, it must be through the efforts of individual Negroes…Therefore, I owe it to myself and to my people to accept this challenge” (Williams 1937).

Williams worked various jobs and graduated from the New York based Beaux Arts Institute of Design. In 1915, when he was 21, he became the first and only African American to hold an architectural license west of the Mississippi. A year later, he enrolled in a three year program in Architectural Engineering at the University of Southern California. In addition, Williams was also the first African American to be accepted into the Southern California Chapter of the American Institute of Architects in 1923 (paulrwilliamsproject.org). By the time he was 28, he opened his own firm: “Paul Williams and Associates” (Bengali 2004). In 1937, Williams published an essay in *The American Magazine* called “I am Negro.” As he explains in the essay, early in his career potential clients would freeze when they saw him and realized that he was black. Williams was forced to hone in his skills in salesmanship to compensate for what he called his “racial handicap” as a black architect with various strategies including spending countless hours teaching himself how to sketch upside down so that he could quickly capture his potential
clients’ attention before they found an excuse to not use his services. (This “trick” would also kill two birds with one stone by sparing his white clients the potentially uncomfortable situation of having to lean over his shoulders and be in close proximity to a black man (Karen Hudson Personal Interview; Bengali 2004).) Once he was given a chance to show his work, most people were able to overlook their initial response to reject Williams. Williams wrote, “…on the whole, I have been treated with an amazing fairness.”

Nevertheless, Williams could not escape the painful ambiguities and ironies of being a black professional in 20th century America. For one, Williams suspected that later in his career he had in some respects been treated even more generously because of his race, but this “generosity” came with a price. He explains, “I have been rewarded on the just basis of my own ability—perhaps a bit more richly than my ability deserves, for it is an amusing irony that, with success, my color has a certain publicity value. I am a freak” (Williams 1937). This ambiguous success was accompanied by the fact that he was commissioned to build mansions in areas where he could not live even though he could afford it due to segregation. Even in cases where he was already hired, he still had to employ strategies to avoid making his clients feel awkward around him. (For example, according to his granddaughter, he often surveyed the building sites with his white clients with his hands behind his back so as not to put his clients in the potentially uncomfortable situation of having to shake the hands of a black man.) And in 1937, when he had already designed over 400 homes in Southern California (paulrwilliamsproject.org), he traveled back to the South for an award and had to switch to a Jim Crow train (Bengali 2004; Hudson 1993). By the end of his career that spanned five decades, Williams had three honorary doctorates (Howard University (1952), Tuskegee Institute (1956), and Atlanta University (1964)), opened an office in Bogota, Columbia (1941) and was licensed in five states (California (1921); Washington D.C. (1936), New York (1948), Tennessee (1960) and Nevada (1964)). He had also designed approximately 3,000 buildings including the Beverly Hills Hotel, Saks Fifth Avenue,
the Los Angeles County Courthouse and the iconic Encounters Restaurant at Los Angeles International Airport.

But while Williams designed elegant and luxurious spaces for the elite, he also was concerned with creating beautiful and comfortable low income housing. His own struggles made him particularly sensitive to African Americans’ lack of adequate housing and professional mentoring. He served on the Los Angeles City’s Planning Commission and Municipal Housing Commission. Williams was among the team of architects who designed the four-hundred-unit low-income housing project Pueblo del Rio in the 62nd district in southeast Los Angeles that was finished in 1942 (Flamming 2006). He published essays on the racial burden of being black in America and he also published two books (*The Small Home of Tomorrow* and *New Homes of Today*) that discussed how to design affordable homes because he believed that the basis of a democracy was homeownership and that one could make a comfortable and nice home without a lot of money. Williams wrote, “One of the greatest assets in preserving our democratic society is the American home” and that America was “the greatest nation of homeowners in the world” (Bengali 2004).

Williams also designed important public buildings for the marginalized. For example, in the South Los Angeles (SLA) community, he designed the first YMCA for African Americans and the Second Baptist Church (Bengali 2004). Additionally, in 1960 Williams donated the design of St. Jude’s Hospital, a hospital in Memphis which founder Danny Thomas sought to serve children from all over nation of all races, rich or poor. But one of the most important endeavors Williams engaged in for the African American community was the founding of BFB. (He also later designed one of BFB’s branches.) BFB made hundreds of loans to black veterans who were turned down by mainstream banks (Bengali 2004). In sum, as Flamming comments, despite Williams’s fame, “he [Williams] was just as likely as any black man to be forced to leave a whites-only restaurant or be fraudulently accosted by the police. The struggle for black
freedom remained, and community leaders continued the fight for equal opportunity” (2006:297-298).

Williams’ best friend was H. Claude Hudson, a co-founder of BFB. Hudson and Williams met in the 1920s when Hudson, a dentist, was looking for someone to build the new medical office him and his partner, physician E.B. Liddell. They planned to open it in the heart of Central Avenue on 41st and Central Avenue. (Later, BFB’s flagship headquarters would be established a few blocks away on 45th and Central.) Upon arrival to Los Angeles a few years earlier, Hudson could not find decent office space that was available for rent to blacks, so Hudson built a home and used part of the house as a dental office. But by the late 1920s, not only had Hudson’s practice flourished, but the black community was growing. As Flamming put it, “The unprecedented black migration to LA in the 1920s; the growing affluence of the black middle class; and the racist barriers to residential movement west and east—all these factors ensured that Afro-Angelenos would push southward…The ‘old’ business center was not that old, and few neighborhoods anywhere on the Eastside were strictly black, but Afro-Angelenos continued to place their stamp on the Avenue [Central Avenue]—to invest themselves in it, to build it up. Even as they fought the restrictive covenants and segregation that hemmed them in, they claimed more of Central Avenue as their own. As half-free strivers trying to remake their world, that was their best option” (2006:293). Williams designed the Liddell medical building and it opened in April 1929 (Flamming 2006:292). From then on, Williams and Hudson became friends--and even became family when Williams’ daughter married Hudson’s son a few decades later.

H. Claude Hudson’s Social Activism: Social Justice and Political Connections

Son of sharecroppers who were former slaves, H. Claude Hudson was born in 1886 in Shreveport, Louisiana. While attending dental school at Howard University in 1910, Hudson was part of a group of blacks and whites who wanted to improve the lives of blacks. Hudson and others (including W.E.B. Du Bois) participated in what was to become known as the “Niagara
Movement," the conference in which the National Association on the Advancement of Colored People (NAACP) was founded--an organization that was technically founded in Canada because when the group tried to meet in one of the hotels on the American side of the Niagara Falls, the hotels refused to rent to them. So the group went to a hotel on the Canadian side of the falls. Upon graduation in 1913, Hudson moved back to Shreveport and began paying his dues as a member of the NAACP until 1921 when he was elected president of the underground chapter. People were so afraid of being associated with the NAACP that it made it very difficult for the NAACP to even raise money in Shreveport (Hudson Oral History 1967:6). Hudson explains, “In Shreveport there was nothing…we could do as an organization but collect money and send to New York to aid in the fight for social justice. At that time lynching was rampant. You could hardly pick up a morning paper with which you read of a lynching somewhere in the South and occasionally in the North” (Hudson Oral History 1966:1-2). But when a NAACP organizer from New York came to ask Hudson to become President of the Shreveport branch and “pick up the challenge and direct the work” of the dormant branch, Hudson decided to take up the challenge because he felt it was his duty to make a better world for his children. Hudson and others surreptitiously organized social justice work--using other names, such as the Citizens’ Committee, so not to arouse the KKK. But after two years, Hudson decided to leave Shreveport. He explains:

Well, as a father of five children at that time[,] I had been able to stand the insults and brutality of the South but as I look[ed] down on my little children playing around my feet not knowing that fate might hold for them, I couldn’t bare the idea of remaining in the South, and I just moved out to California and took the examination, secured my licence [license]...But I did not give up the work of the Association [the NAACP] when I left the South I continued to work from this point to eradicating the evils that made me leave the South. (Hudson Oral History 1966:3)

44 The group called themselves the “Niagara Movement”, but they later changed their name because as Hudson explained, "[N]o one knew what the devil 'the Niagara Movement' meant. So the name was changed to the National Assn. for the Advancement of Colored People" (Folkart 1989).
Hudson chose Los Angeles for a new home for the same reasons that many other African Americans did during the first wave of black migration to Los Angeles in the early 20th century: the lure of the “Western Ideal” of freedom and the draw of Southern California’s warm weather (Flamming 2006). (Hudson was bringing his parents with him and thought the climate of Cleveland or Detroit “would be too [sic] hard on them” (Hudson Oral History 1966:3).) He moved his family out to California in 1923.

Once in California, Hudson immediately resumed his dedication to “the cause” and participated in a range of organizations aimed at seeking justice and opportunities for African Americans. For instance, he joined the local chapter of the NAACP and invested in the formation of the first black bank west of the Mississippi, Liberty Savings and Loan (Hudson Oral History 1966:4). Hudson explains: “When I came to Los Angeles in 1923, there was as much discrimination here as in Shreveport, the only difference was that I could ride whenever I could find a seat on a train or a trolley, and I wasn’t in danger of being lynched” (Peyser 1980:296). Within two years of his arrival, Hudson had helped desegregate Los Angeles beaches. He strategically organized a “swim-in” in an area that was deemed “whites only.” Hudson and the seven USC students the NAACP recruited were arrested and fined $500 a person or 90 days in jail (Folkart 1989). Upon the overturning of those verdicts, the beaches were desegregated. Hudson recalled the victory in an interview years later: “I took the blackest little boy I could find and went to the beach with him. We ran along the beach…all the way up the coast and no one bothered us” (Folkart 1989).

Keen on attacking African Americans’ second class citizenship through legal and political means, Hudson began studying law at night in order to help further the NAACP’s goal—while running his own dental practice during the day. In 1931, he became the first African

45 Note: In a 1967 interview, Hudson said it was a $400 a person fine, not $500 (Hudson Oral History 1967:16).
American to graduate from Loyola Law School. (His son, Elbert T. Hudson, would also later graduate from Loyola with a degree in law and become president of BFB in 1972.) Even after spending ten years acting as president of the Los Angeles branch, Hudson continued to serve the NAACP throughout his life. In 1953, he was even elected to the national board of directors for the NAACP. Hudson was known as “Mr. NAACP” for all the work he did, for example, in fighting against the unequal treatment of blacks in situations such as: proposals for segregated schools in southern California (Hudson Oral History 1967:12); the Los Angeles Unified School District’s refusal to promote black teachers despite their stellar teaching records and high test scores; segregated public parks and pools; and cases against police brutality (Hudson Oral History 1967a: 9, 14; 1967b:3, 10). Hudson also was instrumental in the establishment of the Martin Luther King, Jr. Hospital, a hospital that has provided no-cost health services (e.g., health education programs, testing, urgent care, etc.) to people without insurance and/or U.S. citizenship since 1979. The comprehensive health center and an auditorium in that hospital are named after Hudson. The health center serves approximately 45,000 patients a year (Fisher 2010).  

In 1976, the Los Angeles County Board of Supervisors awarded Hudson the Distinguished Service Medal, the county’s highest honor. Upon his death in 1989 at the age of 102, a Los Angeles Times writer called him “probably the most revered black leader in Los Angeles” (Folkart 1989).

Finally, Hudson is also credited with being a pivotal figure in the founding and success of BFB. In 1949 Hudson began serving as President of BFB and soon after also served as Chairman of the Board of Directors. By the time he retired in 1986, BFB’s assets grew from $3 million to $66 million (Folkart 1989). The urgency of providing finance for blacks was a direct result of the segregation of African Americans. Hudson explains: “It was almost impossible for a Negro to

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46 Williams, Hudson and other black leaders unsuccessfully attempted to establish a similar hospital in Los Angeles in the mid-1940s called West View Hospital, Inc. The group started planning in 1945 and there is a famous picture of Williams working with a team of builders as they look at Williams’ sketch of the hospital. (See the Paul Williams project.org archives.) The hospital was never built because the organizers could not raise enough money to fund the project.
secure a loan on any property west of Main Street. It seemed that the financial powers had determined that the Negro would live on the east side” (Hudson Oral History 1966:6). Yet despite his success and status in Los Angeles, Hudson experienced residential segregation firsthand: “Of course Negroes were continually moving west[,] you had to move west they were coming anyway and you couldn’t stack them up one on top of the other and finally you had colored people living out near… [Crenshaw Heights]. I lived in that neighborhood, and when I bought it I had a lawsuit brought against me” (Hudson Oral History 1967:14). He continues:

[T]hey had worked out a nefarious scheme that you could own it but you couldn’t occupy. I could buy this but I could rent it to you, but I couldn’t live in it myself…And they carried that to such an extent, that an old colored fellow living in Boyle Heights was forced to sell his property. He had a vacant lot…and he used to park his truck on that vacant lot and the court ruled that parking his truck on the lot was using it and the decision of the California Supreme Court was that he could own but he couldn’t use it. How far in the dark world could you go? (Hudson Oral History 1967:15, italics mine)

The scheme Hudson was referring to was Gary v. LA Investment (1919) in which barred people of color from using or occupying land that had racial covenants on them, even if they owned the land. When Hudson and his family moved north of Inglewood to View Park in the 1960s, the “For Sale’ signs sprouted like mushrooms” and his window was broken six times (Folkart 1989). Although Hudson was not formally trained in business, he had long been a supporter of black businesses and progressive politicians because he, like other BFB founders, saw a clear connection between money and power. He had invested and helped organize three of the biggest and most successful black-owned enterprises in Los Angeles: Liberty Savings and Loan (as mentioned above), Golden State Life Insurance Company, and BFB. In a 1966 interview, Hudson explains his role in these three enterprises and the significance of BFB to the black community:

That was from the time I came here 1923 up to the organization of the Liberty Savings & Loan before we had any finance that we might be able to be supported without tremendous handicap and then later the Golden State Life Insurance Co. was organized by Mr. Houston, Mr. Nickerson and [m]yself[,] a group of other
joined together to organize the Golden State and of course they made loans on real estate but no great breakthrough in finance was made until the Broadway Savings & Loan was organized opening its doors January 11, 1947. We joined in a group they had, I was elected member of the board, and raised the money to organize Broadway Federal” (Hudson Oral History 1966:6).

Furthermore, Hudson not only brought financial investment to the organizing of BFB, he also brought the political connections needed to successfully apply for a bank charter. Hudson networked with various leaders, including Congresswoman Helen Gahagan Douglas, who represented the SLA district. (In 1944, she had defeated Fred Roberts, a popular African American Republican politician, to serve on the United States House of Representative for the 14th Congressional District, which covered the South Los Angeles area.) According to Florence Clifton, an activist and Democratic organizer who worked as treasurer for both of Congresswoman Douglas’s 1944 and 1946 campaigns for Congress, Hudson was among a handful of black leaders in the 1940s who always contributed to Douglas’s campaigns. In a 1972 interview, Clifton discusses the Democratic base in the black community: “[I]n those days the black finance community was a half a dozen people you could name. There was a black dentist that always contributed; Dr. Claude Hudson contributed to Helen [Gahagan Douglas] and contributed to Jimmy [Roosevelt]. Whenever we needed something he’d always give us a contribution” (Clifton Oral History 1972:67). Douglas was a progressive who was among the handful of white politicians who advocated for the rights of minorities, for example, taking on issues to help migrant farm workers. Although Douglas was not listed as one of the founders of BFB, her support of BFB was clear as she served on BFB’s Board of Directors when the bank opened. Another person who also had an amicable relationship with Douglas was BFB co-founder M. Earl Grant, the leader of the group that Hudson had joined in organizing BFB.

One person I interviewed who organized another ethnic bank in the 1940s in Los Angeles told me that it took over 10 years to get a charter because their group lacked political connections. The ethnic bank organizers were asked for bribes numerous times and were finally able to successfully apply for a charter after they hired a team of Beverly Hills lawyers to represent them (Personal interview with Susan Lee).
M. Earl Grant’s Pragmatism: Knowledge and Experience in Business

M. Earl Grant was a millionaire entrepreneur who was born in 1891 on a farm owned by a man named Shattuck near Parkersburg, West Virginia. As mentioned in Ch. 1, Grant dropped out of school in third grade because he had to help with the farm work (Drotning and South 1970:123). When he was eight years old, he decided to help a poor black lady in his neighborhood pick blackberries because she did not have enough food to eat. While picking the berries, the neighbor got into an argument with two white ladies who were also picking berries. Later, he and his father were summoned to court and M. Earl Grant was falsely accused of attacking the two white ladies. Grant recalled the incident years later: “Of course, I hadn’t attacked anybody. I was nothing but a kid with a tin bucket in my hand picking blackberries. But they told me to plead guilty anyway. So I told the justice that I hadn’t done anything, but that I had been told to plead guilty. He dropped the hammer on me and said, ‘Eight dollars fine’” (Drotning and South 1970:124-125). He continues, “That shook me up and I carried it with me for a long time because it was so unjust and unfair… But they could fine me eight dollars because they were in power and I was not. The judge must have known I wasn’t guilty, because what could an eight-year-old boy do to two grown women who weighed 180 pounds apiece, out in a berry field?” (Drotning and South 1970:124-125).

The fine cost a quarter of his entire family of fourteen members’ combined monthly income. Instead of feeling bitter, Grant drew on his memory of his grandparents to strengthen his determination to make his life a good one. Three of Grant’s grandparents were illiterate because they were slaves who lived under Virginia’s literacy laws. Grant remembered how his grandfather used to tell him about plantation owners in Virginia who ran huge slave-breeding farms and made fortunes by selling black slaves farther south. Grant promised to do better for himself and for his grandparents. He explains, “I realized when I was in my teens that no one was going to come along and make life pleasant for me. I knew I was going to have to do
something about it myself. It wouldn’t do any good to just sit around belly-aching about what they did to my grandparents—I had to start worrying about what their grandson did for himself” (Drotning and South 1970:125).

At sixteen, Grant left the farm for Parkersburg and got a job delivering shoes for $3.50 a week and managed to be frugal enough to put a little money in the bank each week. Noticing Grant’s hard work and determination, the banker’s wife offered him a job that paid $5 week plus room and board (Drotning and South 1970:126). Such acts of compassion shaped Grant’s outlook in life. In an interview in 1970, when he was 78 years old, Grant said:

I can understand how some of the kids feel today, because bitter experiences become indelible in your mind. You resent the insults that you take and long for revenge. But I’ve learned over the years that nothing is really accomplished by reacting violently. Besides, all people no matter what color they are, are not as ornery as some of the people. If you try, there is always somebody who is willing to come and help you.

Grant eventually left the South but had a difficult time getting a job. When he was offered a job as a dishwasher on a train, he took it. In 1916, Grant began working for Rock Island Railroad as a chef-cook. Soon, he became one of the youngest and best cooks. He recalls an incident that marked a turning point in his life. He was invited to the superintendent’s office and while smoking an expensive cigar with him and the man who was to become Grant’s new supervisor, the superintendent praised Grant as he showed the new steward Grant’s stack of compliments that stood two feet high. “Grant is a chef-cook,’ he said. ‘He’s one of my best men. He can do anything in that dining car. He’ll do everything else, and if you can make change you can make good as a steward.’ Grant recalls:

[A] few minutes later I walked out of that office as proud as a peacock… thinking about all the compliments the superintendent had paid me. While I was standing there waiting for the trolley I must have started using my brains, because all of a sudden I realize the significance of what the superintendent had said. What he had really told me was that he knew I was capable of being the new steward, but I wasn’t going to get the job because I was black. To add injury to insult, I would have to train the white man for a job that should have been mine, and they were going to pay him an extra sixty dollars a month. I
could do his work for him, but I could never aspire to his job...I realized I had gone as far in life as I would ever go if I stayed in that job.’ (Drotning and South 1970:120)

Grant quit his job and left for California. He ended up in Los Angeles where he started a trash collection business because he wanted independence and because he felt “too fat” and “wanted to work some of it off” (Drotning and South 1970:127). He bought a truck for $160 in late December of 1923 and began asking homeowners in an unincorporated area of Los Angeles if they wanted his services. Regardless of people’s attitudes toward him, Grant always greeted them with a pleasant attitude. Charging each customer twenty dollars a month, Grant’s business flourished and soon he was making six thousand dollars a month. Grant wanted to expand his business and decided to bid on city garbage contracts. Grant’s acquaintance was the city manager in Pasadena and he suggested that Grant submit a bid. But the city employee refused to give Grant a bid sheet. The city manager intervened and Grant submitted his bid, but the city engineer refused to accept it. When the city manager asked the city engineer why he refused the bid, the engineer said, “That guy’s a rich nigger.” The city manager replied, “I know he is, but that rich nigger is sitting right here at my desk and I’ll back his bid.” Grant nevertheless lost the bid, but he later won bids in nearby Burbank and Altadena (Drotning and South 1970:127). (During the mid-1940s when BFB was established, his company was moving 30 tons of trash a day.)

Grant’s business became so successful that he needed to find more landfills for the garbage he was collecting. Then he remembered when he was growing up how his father used to pick up their neighbor’s garbage to feed the hogs. Grant began selling the garbage to hog ranchers and in 1928, Grant decided to go into the hog business himself and bought land, six sows, one boar and nineteen pigs for less than $2,000. Grant soon had one of the largest hog farms in California partly because he knew how to breed the hogs to produce the best cuts of meat. His hogs would sell $10 more than other hogs and during the Great Depression people would trade their fur coats for his hogs. At one point of his career, Grant had roughly 6,000 pigs
and sold over $100,000 worth of pigs a day. Grant was the first black man to be invited to join the California’s Hog Association.

As Grant got older, he wanted to slow down so he decided that he would begin investing in real estate. One day in the mid-1940s, he noticed a house was for sale across the street from the African Methodist Episcopal Church in Pasadena (Grant Oral History 1966:12; Drotning and South 1970:129). Grant wanted to renovate and re-sell the house, but he could not get a loan from the local white-owned bank because the bankers were afraid of the response of the local homeowners and the real estate brokers if they found out that the bank facilitated the purchase of a home in a white neighborhood by a black man. This is when Grant decided that he was going to open his own bank. As discussed in Ch. 1, Grant was fed up with mainstream banks’ concerted effort to exclude African Americans from getting loans, even though the very same banks took deposits from them. Indignant and tired of being treated like a second class citizen, Grant began organizing Broadway Federal Bank with a group of leaders.

The founders opened the doors to the Broadway Federal Savings and Loan Association to the public on January 11, 1947. In addition to Williams and Hudson, the rest of the founder of BFB were successful entrepreneurs or professionals who had been investing in black businesses for decades: H.A. Howard and Albert Maddox were prosperous real estate businessmen; Simon P. Johnson was the owner a successful mortuary; Thomas L. Griffin, Jr. was a well-known lawyer

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48 Note: In Drotning and South’s 1970 interview with Grant, they write that this incident which had spurred the organization of BFB happened in 1947 (129). However, according to bank’s official charter, BFB had already gained its charter by November of 1946.

49 BFB’s archives were destroyed when the bank’s headquarters was burned down during the 1992 Civil Uprising and therefore, I could not confirm all the names of the founders. However, among those who can be confirmed as original founders are: H. Claude Hudson, Paul R. Williams, H.A. Howard, Simon P. Johnson, Albert Maddox and M. Earl Grant. The other three members were likely Thomas L. Griffin, Jr. Edward Atkinson and Cynthiabelle Gordon. (In a 1966 interview, M. Earl Grant named Cynthiabelle Gordon as one of the original guarantors of the bank.) (Grant Oral History 1966:13; Personal Interview with Elbert Hudson 2007). See Appendix A for more on the founders.
(who later became a judge) and NAACP leader; and Cynthia Belle Gordon\(^5\) was the widow of Dr. Wilbur Gordon whose dream of building a subdivision for the upper and middle class African Americans outside of South Los Angeles was quashed by white homeowners, their lawyers and politicians (See Ch. 2 for details.). They would accomplish multiple goals by creating a black bank. BFB provided: 1) home mortgages for black who were unable to get loans from mainstream banks in and outside the SLA community, 2) African Americans training and opportunities for white collar jobs in the financial industry, 3) financial literacy education to the black community (e.g., teach customers how to use the services of a bank), 4) a welcoming, unambiguous place for people to save their money, and 5) a social and financial anchor in the black community so that people will be able to set-up important organizations such as churches. By 1970, Broadway was the largest black-owned saving and loan association in the United States (Drotning and South 1970:130).

Grant had long advocated the “black business ethos” because he believed in the idea of the black community helping each other out. In fact, when asked in a 1970 interview if he believed in “black power,” Grant answered that he did-- if “black power” meant “green” power. Grant explains: “If you drive out of your way to come to my little gasoline station and help me to make money so I can educate my children you’re doing something about black power…” He continues, “Negroes have got to go out of their way to help each other” (Drotning and South 1970:130). Thus, to complement Broadway’s work in the community, Grant again relied on his network to establish the Watts Savings and Loan Association just two years after BFB was founded. Grant worked hard to make Watts successful: Watts’s capital stock and paid-in surplus was originally $165,000, but after Grant worked without pay for six months, the assets were up to

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\(^5\) Cynthia Belle Gordon is also referred to as Cynthia Belle Smith in historical documents because she remarried after Dr. Gordon passed away. According to an article under “Social Notes” in the 1947 California Eagle, she was already remarried by February 6, 1947 (the publishing date of the article) because the article talked about “Dr. and Mrs. Relliford S. Smith ‘nee Cynthia Belle Gordon’” (11).
$430,000. By Watts’s first anniversary, their assets had grown to $1,500,000. After the first year, Grant began paying himself $50 a month as a salary. In 1970 the association was renamed Family Savings, and had $33 million in assets. Grant’s focus on banking, finance, and homeownership is not a coincidence as his own father used to encourage him to buy land. Also, Grant’s personal philosophy contributed to his dedication to making black banking successful. Grant explains: “I don’t think a man is really successful in life unless he does do something for somebody else” (Grant Oral History 1966:32).

Paving the Road to Full Citizenship

The history of three of BFB’s founders captures the ambivalences of the black experience under segregation: if it reflected the Horatio Alger aspect of American society, it also exhibited the communal nature of the black response to oppression. Each biography shows how different individuals sought to marry the twin goals of “individual self-help” and “communal progress” through their efforts to reshape the world into a better place. In particular, their stories serve as vivid illustrations of the founders’ determination to the principles of idealism, pragmatism and social activism, as well as their collective effort to reshape the world in order to create equal opportunities for those who were excluded from the mainstream.

The three founders and their families were from the South and were part of the first wave of black migration to Los Angeles. As chronicled in Douglas Flamming’s Bound for Freedom (2006), they represented a special segment of the black migrants because they were able to make their way to the West—the farthest place of the black migration hotspots. M. Earl Grant was already halfway to the West when he became disappointed by the discriminatory practices of his supervisors; Paul Williams’s parents needed to make their way West for the dry, hot weather as they suffered from respiratory ailments and H. Claude Hudson was a dentist of some means so he could afford to buy the expensive tickets to the Los Angeles and move his entire family—plus he also wanted his aging parents to be comfortable in the warm weather. But in all cases, the
founders and their families were drawn to the promises of full citizenship and life of equality in the West, but were only met with half-freedom.

Williams, Hudson and Grant each faced different challenges: Williams and Grant lacked mentors; Hudson lived under the threat of violence in his social activism activities and his challenge of the residential color line; Grant had been treated unfairly as “those in power” had tried to limit his rights throughout his life: in court when he was a mere child; in the workplace when he was denied promotions as a chef-cook; and a later, in a bid for the city’s garbage collection contract. It was the incident where he was denied a home mortgage loan that he was capable of repaying that prompted him and others to establish BFB. Yet while their experiences with racism sometimes seemed insurmountable, they did not let discrimination curtail their dreams. They resisted. They worked hard starting at a young age and became extraordinarily successful in their respective careers, breaking racial barriers for other African Americans to follow: Williams found a way to gain an internship at a prestigious architectural firm, pursued a graduate degree at USC and was also the first black man to be inducted into the AIH; Hudson was the first African American to graduate from Loyola Law School; and Grant was the first black man to be invited to California’s Hog Farming Association. (And in 1963, all three founders were listed in *Ebony’s* top 100 richest African Americans in the nation (Robinson 1962).) Williams, Hudson and Grant realized their potentials through their willpower, but they were also shaped by the acts of compassion and acceptance from both blacks and whites because they acknowledged they benefited from such acts throughout their lives.

Despite the differences in their biography and their individual causes for action, what brought these founders together was their experience as second class citizens and their dedication to their values of social justice and helping others. All three founders experienced different forms of resistance to their second class citizenship: Williams focused on housing issues by providing comfortable designs of modest homes; Hudson dedicated his life to changing legislation and
judicial rulings that codified racial discrimination; and Grant worked hard on black enterprises, providing jobs and services that improved the economic status of blacks.

The half-freedom in Los Angeles presented an opportunity structure that allowed them to reach their status and build their fortunes and their networks—to gain the education and experience they needed to climb up to the upper echelons. Since the early 20th century when these founders were very young, they worked hard to take advantage of the particular half-free opportunity structure of Los Angeles that afforded them chances to push for “full” freedom. Williams rubbed elbows with the elite of Hollywood stars and beyond. Hudson served on the national board of the NAACP for decades, as well as being involved in numerous other local and national organizations. Grant’s success helped him gain support from some white businessmen when he applied for trash bids in different Southern Californian cities. Furthermore, the founders’ network helped them connect to Congresswoman Helen Gahagan Douglas, was one of the first and most successful and progressive female politicians in California and on the national scene, and who served on BFB’s Board of Directors. As we see below, in addition to the founders’ values and determination, the founders would not have been able to establish BFB without relying on the black networks and organizations that have existed for decades before the organizing of BFB. Based on the black business ethos, these networks and organizations were a response to the historical context (i.e., social and institutional structures) that shaped the lives of black Angelenos and facilitated the sharing of resources, knowledge, know-how and experience among blacks that helped make the founding of BFB possible and a sensible response to fight racism.

III. A Multi-Pronged Approach to Social Activism: Financial Activism as Pathway to Securing Civil Rights

The founders turned their attention to financial activism through their establishment of BFB in part because they had met depressing setbacks fighting racism through the judicial system, which
reaffirmed their need to continue to combat their second class citizenship using a multi-pronged approach. As described in Ch. 2, black Angelenos had been organizing to defy the growing adaptations of Jim Crow practices in Los Angeles since the early 20th century. As a majority of these leaders had escaped the terror and oppression of the South, they put their hope for a life as equal citizens in the “Western Ideal” and were determined to make Los Angeles a haven for blacks. As McBroom argues, “civil rights activism was not a ‘movement.’…It was instead a way of life, an act of faith, a lifelong mission” (2006:73). Black Angelenos fervently organized on local and national levels through organizations such as The Los Angeles Forum, Urban League, NAACP, etc., which were used as “springboards” to combat racism on various fronts (McBroome 2006:73). Many of the founders were active NAACP leaders who supported national issues the NAACP was involved in by raising money for the organization. But the national issues that were fought through the judicial and legislative systems were meeting discouraging setbacks in the early 20th century.

In the 1920s and 1930s black Angelenos were especially focused on combating violence and Jim Crow practices (McBroome 2006:73). They were “very depressing times” (Flamming 2006) because of the string of disappointing outcomes in Congress and in the courts. The 1922 anti-lynching bill that proposed to make lynching a felony failed and three cases challenging the legality of restrictive covenants proved to be unhelpful in rooting out the practice. The lynching of African Americans was rampant in the post-bellum period. As a BFB founder and NAACP President of the Los Angeles Chapter, H. Claude Hudson, described it: “‘One part of the South would try to outdo the other in treatment of colored people. Negroes were lynched almost for breathing, and nobody paid any attention…’” (Peyser 1980:296) Stopping the extra-legal practice of lynching was one of the biggest issues the NAACP had been working on since their founding in 1910, but only a few congressmen supported the NAACP. Among them was Leonidas Dyer, a Republican congressman from Missouri who was concerned about the
deteriorating race relations after WWI and committed himself to supporting the NAACP’s goal in obtaining a federal anti-lynching law (Evans 2009:198). The Dyer Bill of 1922 proposed to make lynching a felony and contained punishments such as sentencing lynching participants to prison and/or a fine. (It even stipulated that a $10,000 fine be paid to the victim’s family by the county(s) where the lynching occurred.) The House of Representatives passed the bill on January 22, 1922, but the Southern Democrats squashed the bill by threatening a filibuster. Despite its failure, the significance of the Bill was critical to the decline of lynching. As Evans (2009) argues, “[T]he near success of the Dyer Bill in 1922 convinced the NAACP of the correctness of a legal approach to the ‘race problem’” (200). From this experience, the NAACP
would commit full force in organizing legal attacks on social injustices. But some leaders, such as the NAACP’s W.E.B. Du Bois, supported a multi-pronged approach to defeating racism by encouraging, for example, that black leaders to work on improving the economic conditions of African Americans.51 Establishing Broadway would support that multi-prong approach by addressing these issues by expanding African Americans’ financial opportunities through loans and employment.

Meanwhile, on the local level, black political associations in Los Angeles supported attempts to stop the encroaching segregation through legal means, but those failed too. With this string of defeats in the courts, it was very clear by the end of the 1930s that the courts could not be relied upon to help “the cause” and African Americans would need to focus on helping themselves. As mentioned above, in Los Angeles Investment Co. v. Gary (1919), the California State Supreme Court ruled that restrictive covenants that prohibited the sale to blacks were void, but that those with occupancy clauses were legal. This created a situation where blacks could buy a home, but not live in it (Flamming 2006:219). Then there was the “Long Case” (George H. Letteau, et al. v. William A. Long, et al.) in which an African American couple was forced to give up their home without compensation despite the help of NAACP lawyers. The Longs had bought a home in 1924 in a previously all-white neighborhood near South Los Angeles where the developer had an occupancy clause in the deed that stated that the home would be automatically returned to the developer if nonwhites lived in the home. Although the neighborhood was almost half black by the mid-1920s, the court nevertheless upheld the clause, giving the developer the right to sue half the neighborhood. Finally, in Corrigan v. Buckley (1926), the Supreme Court dismissed the case that the NAACP took up after the case had already been defeated twice. Corrigan was a white woman in Washington D.C. who wanted sell her home to a black woman

51 For example, as Evans writes, “W.E.B. Du Bois derided the NAACP’s cautious strategy as a ‘legalism’ that did not promote ‘the essential need’ of African Americans ‘to earn a living, safeguard their income, and raise the level of their employment’” (2009:200-201).
but could not do so because of a restricted covenant on her property. Thus, in the midst of these political and judicial setbacks in the 1920s, many of the founders began working together to develop black organizations. Williams, Hudson and Grant were among the black leaders who, similar to W.E.B. Du Bois, were keenly aware of the connection between financial capital and power had experience with (or a connection to) black enterprise, and decided to focus their attention to the longstanding and pressing issue they faced at the time: the lack of capital in the black community.

**Tapping into a Network of Resistance: Collective Resources and Experiences**

Since the early part of the 20th century, black leaders started cultivating social and professional networks by collectively organizing financial organizations in banking and insurance, which by the mid-20th century was had been instrumental in BFB’s emergence and success. By 1925, some of these black leaders had established two notable black-owned financial institutions: Liberty Savings and Loan and Golden State Insurance Company. In 1924, BFB founder Paul R. Williams and Norman O. Houston, an insurance salesperson and investor of BFB, were among a group of black leaders who formed the board of directors for The Commercial Council of Los Angeles which was “devoted to the promotion of business, manufacturing, and immigration” and served to facilitate black business. As mentioned above, that same year, H. Claude Hudson invested in Liberty Savings and Loan, the first black bank established west of the Mississippi. Liberty, organized by Houston, fellow insurance salesmen William Nickerson, Jr. and George Beavers, physician Dr. Wilbur C. Gordon and others “provided black strivers a place to secure funding for entrepreneurial ventures” (Flamming 2006:240). Dr. Gordon served as president of Liberty and by the mid-1940s when BFB was established, Liberty’s assets were already over a million dollars (Robinson 1962). (Liberty built homes for blacks when the FHA did not (Robinson 1962:160).) (As mentioned above, Dr. Gordon’s widow would become one of the original investors of BFB.) Also in 1924, the same
three men who organized Liberty--Nickerson, Houston and Beavers--began forming the first black life insurance company in Los Angeles, the Golden State Guarantee Fund Insurance Company, headquartered on Central Avenue, which was the heart of the black community at the time. Beavers, who was 32, was active in the NAACP because he and his family did not enjoy the “full citizenship rights and better living conditions” that his parents had hoped for when they moved the family out in the early 1900s (Flamming 2006:226). Beavers was a high school dropout who went from blue to white collar jobs—ending up as a sales agent for American Mutual Benefit Association. American Mutual was a black-owned insurance company based in Texas. Eager to tap into the market in Los Angeles’ growing black community, they sent a seasoned sales agent, Willliam Nickerson, Jr., a native Texan, to Los Angeles in 1922. Soon after Nickerson arrived, he met and hired Norman O. Houston as a sales agent. Houston was a UC Berkeley undergraduate who studied business but never finished because of WWI. The three men became good friends. They organized Golden State and invited others who were also investors in Liberty, such as Dr. Gordon (who was already organizing Gordon Manors at the time) and A. Hartley Jones, to invest a thousand dollars a person (Flamming 2006:256). This group of investors also included Simon P. Johnson, who as mentioned above, became one of the founders of BFB.

In the 1920s, insurance companies were the largest and most successful black enterprises in the country because blacks needed inexpensive policies. (Flamming explains, “white insurance companies charged them [African Americans] high prices with limited coverage” (2006:254).) However, blacks did have a few restricted choices. Fraternal organizations offered “policies on a limited basis” and then there were a few large black owned insurance companies like North Carolina Mutual Life and Atlanta Life Insurance Company, which had 100 branches, 700 black employees and nearly 10 million in assets (Flamming 2006:254). As Flamming puts it, “These associations, rooted in the fraternal organizations, which offered ordinary African Americans
some security in an insecure world” (2006:254). In 1925, Golden State Guarantee Fund Insurance Company officially opened for business and began selling life- and health-insurance policies as well as providing mortgage loans to blacks throughout California (Flamming 2006:257-258). Golden State provided training to hundreds of black employees (the company employed whites as well) and invested hundreds of thousands of dollars in home and business loans (Flamming 2006:258). By 1930, it brought in $240,000 per year and “hired hundreds of blacks for white-collar positions” (Flamming 2006:257). Also, the company owned its $50,000 headquarters, paid out $300,000 in benefits for members.

By 1942, just a few years before Broadway was founded, the company had the $250,000 necessary to turn their guarantee fund into a mutual life insurance company and they had made millions in loans to blacks and experienced few defaults. According to Flamming, the success of Golden State initiated white insurance and financial companies to start competing for black customers (2006:258). Golden State was able to provide “mortgage loans to black Angelenos at a rapid rate—mortgages large and small, for homes and businesses” (Flamming 2006:257-258). However, as mentioned above, the real breakthrough in providing loans to black Angelenos did not happen until the founding of BFB (Hudson Oral History 1966:6). The founders’ collective experience investing and running these institutions would make their establishment of BFB possible two decades later.


The founders’ form of social activism, financial activism, was part of their multi-pronged approach to seeking social equality. Their financial activism that was based on the “black business ethos,” belief in an economic model based on gaining stability and wealth within an ethnic-based economy (McBroome 2006). While attempting to ensure civil rights through the judicial system through the NAACP, the founders also attempted to address two critical economic
issues in the black community: the lack of financial capital and the lack of access to training and professional jobs for African Americans in the financial industry. Therefore, the two main goals of the mission of BFB was to provide 1) home mortgages and other financial services to people in the SLA community and 2) access to training and professional jobs in the banking industry. These goals reflected the founders’ hope to empower the black community by helping them accumulate wealth and become part of the middle class—in particular by increasing the rate of homeownership among African Americans. The rate of homeownership among African Americans in Los Angeles county had reached its climax in 1910 with nearly 40% of blacks owning their homes (compared to New York’s 2%) when there were relatively few blacks in the area (Sides 2006:16; Flamming 2006:51). But this rate had been slipping since the Jim Crow practices had been on the rise—especially in the form of restrictive covenants that restricted the location and the number of the homes available. By the 1920s, both the use of restrictive covenants and the KKK were widespread across Southern California.

Homeownership was important for a number of reasons. First, on an idealistic level, homeownership was a part of the American Dream—a dream that African Americans, despite their marginality, were also keen on achieving especially in light of the cultural notion of Western Idealism in Los Angeles. But homeownership meant something even more to African Americans—it meant the middle class respectability that they hoped would give them full citizenship. As Kevin Gaines argues, African Americans had been trying to shed their second class citizenship since emancipation and many believed that middle class respectability would finally be their ticket to the mainstream whites’ acceptance of them as full citizens. Besides, becoming a homeowner was a strong way to declare middle class respectability. The hope was that a sizeable black middle class that would break the negative stereotypes of blacks as an undeserving poor. (But of course, some of the founders did not completely buy into this popular notion that economic assimilation would result in full citizenship for blacks. As mentioned
above, Hudson was once ostracized by some of his fellow black leaders for being arrested after staging a “swim-in” at a segregated beach in Los Angeles. His arrest was seen as ruining the image that blacks were respectable and law abiding citizens worthy of acceptance and full assimilation into mainstream society. (For more, see Flamming 2006.)

But more than the distant dream of gaining full citizenship through the acceptance of others, there was also pragmatic and historic significance on why starting a black bank was important. Increasing wealth through ownership was a practical way of achieving empowerment. Exclusion from property rights (i.e., land and homeownership) has been a longstanding strategy to exclude people of color from full citizenship. And ownership has played a key role in excluding different groups of people. Slavery made it impossible for blacks to own land laws prohibiting foreign nationals from the right to own land had effectively excluded the Chinese and Japanese in the agricultural business from owning the land in which they toiled. This strategy to exclude people of color from property rights continued to be at the forefront of how mainstream America chose to restrict the rights and movements of racial minorities as seen in a report that accompanied the FHA’s 1939 security maps explaining the population growth of Japanese Americans:

Despite the not inconsiderable agitation which has flared up from time to time in California and Los Angeles over racial problems, there is really no serious racial condition existing at least in Los Angeles. Much of this agitation has been directed during recent years at the so-called alarming increase in the number of Japanese, and duplicates in intensity and misguided zeal, agitation at the close of the 19th century against the Chinese. While...[there is] a rapid growth among the Japanese, it...is no more rapid than that experienced in the total county population. Furthermore, restrictions on immigration and land ownership, as well as social economic taboos, will undoubtedly serve to check further substantial increase. (Home Owners’ Loan Corporation 1939:6, italics mine)

Lastly, the idea of a black bank made sense to the founders because it fit right into the “black business ethos,” which made it a noble duty and desirable to invest in black businesses. A bank was going to be the perfect instrument for increasing capital in the community because it would
allow them to leverage their collective resources. But the founders realized that they needed to create a bank governed by a social ethos that encouraged their mission of helping the community and not just make profits.

**Black Business Ethos and Supporting Black Enterprises: “A duty and a profit for all”**

Opening a black-owned bank was a logical choice in light of the black community’s negative experiences with mainstream institutions—collective experiences that went hand-in-hand with the black community’s longstanding tradition of supporting black-owned enterprises. Flamming (2006) describes the belief in building and supporting black businesses as the “black business ethos.” Supporting black businesses was a form of “racial uplift” and it was seen as a virtue and a necessity for the welfare of the black community. (For more on racial uplifting, see Ch. 4’s “The Logic of Reinvestment.”) There were practical and theoretical reasons why black leaders would often advocate the black business ethos. In terms of practical reasons, there were many talented, intelligent and diligent blacks excluded from mainstream organizations’ high paying and high status positions. In fact, oftentimes even if the stores owned by non-blacks did serve blacks, they nevertheless did not hire blacks. This became a longstanding source of indignation in the black community (Flamming 2006:228)—thereby making the goals of training and employing African Americans at BFB such an important one. With the increasing needs created by Los Angeles’ growing black community, it made sense for blacks to start their own businesses. Theoretically, black-owned businesses were a good idea because it would create good jobs and training for blacks while keeping money recirculating in the black community; thereby making trade vibrant within the community. As Flamming puts it, “One way to get free of poverty and dependence was to build a thriving ethnic community. Because Race pride and company profit would go hand in hand, people…felt both a duty and desire to create prosperous black-owned businesses. In the best-case scenario, all blacks would benefit” (2006:227). Black journalists, entrepreneurs, community leaders, and ministers had urged the progression of their
group position through the success of black businesses (Flamming 2006:228). These leaders often encouraged blacks to start and support black businesses by comparing their group situation with those of the Jews or the Japanese Americans (Flamming 2006:228). They claimed that trade was an honorable and profitable pursuit and that is how other groups have progressed and enriched themselves.

The widespread acceptance and support of the black business ethos is reflected in Du Bois’s writing in a 1925 article about the failure of two large black businesses in *The Crisis*, the NAACP’s magazine. The NAACP was not well poised to deal with economic problems since they focused on judicial and legislative policy changes. And Du Bois “had been one of the few national officers to propose that the NAACP develop economic programs” (Flamming 2006:298).

Du Bois saw investing in black business as something honorable and generally seen as a self-less act. This is clear when Du Bois writes about Heman Perry, the founder of Standard Life Insurance Company in Atlanta which was one of the most successful black businesses in the country. Perry ran the company successfully for over a decade and underwrote almost $30 million dollars of insurance for 30,000 policyholders before his company went bankrupt. Du Bois laments, “The investment of trust funds, especially of bank and insurance companies is a difficult job…Instead of putting his [Perry’s] surplus into safe white business channels, he tried to use them to promote new Negro business openings” (1925:251). At the end of this opinion column, Du Bois encourages other black entrepreneurs to heed the lessons learned from such failures. He writes, “[O]ur business men must learn:

1. Wealth invested with them is a trust fund. It is silly to squander one’s own money in needless display. It is criminal to jeopardize the hard earned dollars of the poor.
2. Safety rather than large and quick returns is even more necessary for a pauperized group than for the rich. ‘No mere ‘race’ appeal can transmute gambling into ‘loyalty’. Better safe investments at small returns in channels even though white folks control them

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52 According to Flamming (2006), “The Los Angeles Urban League, with its traditional focus on black employment and aid for the working poor, was better positioned to deal with economic problems” (299).
than fliers in financial Monte Carlos which we call ‘our own’ for a season and then lose forever.
3. Submit to the fact that the control of business in America and in the world is in the hands of white folk today and will be for a long time to come. We control small and subordinate bits and these will grow but they are and must be inter-locking parts of a larger whole. Sometimes we must choose between being fleeced by black or white robbers, but not always. More often our economic growth gives us a chance to choose between honest and dishonest business. And honest white business is better than dishonest Negro business. Nor does this for a moment deny that honest Negro business is for us best of all and honest safe Negro enterprise despite all failure is growing and spreading.” (Du Bois 1925:252)

Du Bois’s explanation of the black business ethos principles shows that supporting black enterprises was never really based on blindly and solely supporting African Americans. Du Bois’s reasoning shows how race is defined by not necessarily on skin color, but on power and privilege, and how there are both blacks and whites who are capable of swindling or helping those marginalized. His admonishments reflect that the goal of the ethos: to find a way to provide equal financial opportunities. The founders shared this understanding of race as power and therefore they attempted to reverse the exclusivity of financial opportunities by establishing BFB. The founders organized BFB using these principles of the black business ethos—an ethos that was already thriving in black communities in the early 20th century. They were part of a strong network of leaders in the South Los Angeles community who leveraged their collective resources for public and private good.

**The Significance of Black Banks: The Freedman’s Bank and Distrust**

In addition to living in a system of segregation that denied them educational, wealth-building and occupational opportunities, what made a black-owned bank a sensible response by black Angelenos were the decades of mistrust of mainstream financial organizations. Historically, African Americans have not had a good experience with financial institutions that all too often offered them substandard treatment (e.g., inferior rates, exclusion, etc.). Therefore, black banks have a special significance in African American history as they were founded in response to financial exclusion. A prime example of the black community’s collective memory
of the decades of mistrust with mainstream financial organizations is symbolized by the collapse of the Freedman’s Bank in which newly freed black slaves lost their hard earned and meager savings along with their faith in financial institutions.

Du Bois traces the roots of black banks to the shameful failure of the Freedmen’s Bank. He writes in “The Negro Bank” (1922): “Of all disgraceful swindles perpetrated on a struggling people, the Freedmen’s Bank was among the worst and the Negro did well not to wait for justice but to go to banking himself as soon as his ignorance and poverty allowed” (253). Congregational minister and abolitionist John W. Alvord was the driving force behind the Freedman’s Savings and Trust Company, popularly known as the Freedman’s Bank. While working closely with black soldiers, he realized that many of them did not have safe places to deposit the money they were receiving for work associated with enlisting in the military, such as back pay and bounty payments. Alvord began working with philanthropists and business leaders to establish a savings bank to provide a safe place for primarily former slaves and their descendants to save their money. In 1865, the Freedman’s Bank was chartered by Congress and signed into law by Abraham Lincoln. The deposits at the Freedman’s Bank were invested in “stocks, bonds, Treasury notes, or other securities of the United States” with the exception of the money needed for operating costs and emergencies. Even though there were fifty trustees who oversaw the bank and transparency in the bank’s finances (Congress was free to examine the bank’s books), the bank still failed. Along with all the hard earned money and high hopes of African American depositors, the bank failed after nine years because it was “overwhelmed by the effects of a 1870 amendment to its charter that changed its loan and investment policy, the Panic of 1873, problems of overexpansion, mismanagement, abuse, and outright fraud” (Washington 1997). Reginald Washington (1997) describes the symbolic and financial impact the failure had on African Americans:

The closure of Freedman's Bank devastated the African American community.
An idea that began as a well-meaning experiment in philanthropy had turned into an economic nightmare for tens of thousands African Americans who had entrusted their hard-earned money to the bank. Contrary to what many of its depositors were led to believe, the bank's assets were not protected by the federal government. Perhaps more far-reaching than the immediate lost of their tiny deposits, was the deadening effect the bank's closure had on many of the depositors' hopes and dreams for a brighter future. The bank's demise left bitter feelings of betrayal, abandonment, and distrust of the American banking system that would remain in the African American community for many years. While half of the depositors eventually received about three-fifths of the value of their accounts, others received nothing. Some depositors and their descendants spent more than thirty years petitioning Congress for reimbursement for losses. (7)

The ill-fated bank that lifted the hopes of newly emancipated slaves ended up reinforcing African Americans’ distrust of mainstream financial institutions. The distrust of banks ran so deep in the African American community that even in the grand opening of Broadway, supporters of the bank tried to assure potential customers of the reliability of the bank by underscoring the support of white customers as seen in an article in the popular black newspaper, the Los Angeles Sentinel: “scores of white depositors who placed their funds in [Broadway]…[and who] pledged to tell their many friends to invest their money and help further the cause” (1-9-47 p.3). That is, if white people had their money at the bank, then blacks can trust it as well.

Although Broadway had a similar mission to assist African Americans in saving money and expanding their financial opportunities53, Broadway differed from the Freedman’s Bank in that it was an ethnic bank that was founded, owned and controlled by blacks. Therefore, the

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53 The Freedman’s Bank has interesting parallels with Broadway. According to Washington (1997), Alvord observed that some African American soldiers, “who lacked experience in the business of managing their own affairs, were either squandering their pay or being victimized by swindlers.” Therefore, “Alvord proposed a plan to establish a ‘benevolent’ banking institution that would provide African American soldiers with a secure place to save their money and at the same time encourage ‘thrift and industry’ in the African American community.” Broadway was also founded by civic minded leaders who saw a need for a bank that served blacks. In the original charter, Broadway’s objective was stated as “to promote thrift by providing a convenient and safe method for people to save and invest money and to provide for the sound and economical financing of their homes.” Therefore, in both banks, leaders who were concerned about the welfare of blacks got together to create an institution that they thought would provide economic opportunities and education to a group that did not have many opportunities to improve their financial literacy—something that the leaders of Broadway have tried to address throughout its history.
founding of Broadway as a black bank was significant. Black Angelenos now had more control over their own fate and this was because unlike the Freedman’s Bank, Broadway was an organization that was part of the black community and it provided loans to blacks (The Freedman’s Bank did not.). Furthermore, Broadway was rooted in self-help and empowerment, not philanthropy. The bank supported the overall goal of having African Americans obtain their full rights as citizens, for example, by having the opportunity to own homes just as whites did—even if it meant that they were often homes in segregated communities, an injustice that they had to endure until they found a way to defeat it.

IV. The Legacy of a Network of Segregated Empowered Elites Reversing Social Closure

As a group of privileged and successful African Americans who provided leadership for the black community, the leaders of BFB reflected Du Bois’s idea of the Talented Tenth. This network of empowered elites reflected the best and brightest minds in finance, business and other professions and represented the community’s “collective capital” in all of its forms (Bourdieu 1986). By using and realizing what Bourdieu (1986) calls social-, cultural- and economic- capital within their networks, they created an organization that could be used to generate capital and financial opportunities for the community. For example, not only did they used their own economic capital to invest in the bank, but they also shared their social capital in their networks to garner the trust needed for a bank to operate. They displayed their cultural capital of middle class respectability in working with “outsiders” such as Congresswoman Helen Gahagan Douglas. While this network may seem elitist because it was “self-contained,” it was not necessarily contrary to the community-oriented project they were working on because the founders were committed to social justice and the principles of freedom, equal opportunity and empowerment. When the founders established the bank in the mid-1940s, whites had monopoly over “white privilege” and therefore effectively excluded blacks from the mainstream and the mainstream’s networks. (See next chapter for more on “white privilege” and George Lipsitz’s (1998, 2011)
discussion of the hoarding of power and privilege.) This form of social closure whites had over privilege and power shaped the black leaders’ response: the founders tried to create a network of power and privilege of its own so that those who were also excluded from the mainstream could benefit from their network—all the while working on other ways to become full citizens by being accepted into the mainstream. That is why even though BFB is rooted in the black business ethos that advocated the support of black enterprises, BFB founders and staff did not necessarily understand race as only defined by skin color, but on power and privilege as well. In other words, BFB has always been an institution that was based on the principle of equal opportunity, not on the principle of “blacks-only.” Therefore, as we will see in the following chapters, the legacy of the founders’ principle of equal opportunity for all—regardless of color—will reverberate throughout the bank’s existence over the span of six decades. In sum, the founders pooled their resources to expand financial opportunities, not to create another form of social closure, but to reverse social closure. By extending financial services to those who had been excluded by the mainstream, BFB staff and leaders would try to disrupt the status quo and the system of class reproduction Bourdieu describes. Therefore, they were engaging in a form of financial activism. As we will see in the following chapters, these principles of empowerment, freedom, equal opportunities that makes it easy for BFB to accept people of all races in its work—because their mission focuses on the disadvantaged, not necessarily race.

Limitations of a Segregated Network

Social and professional networks in the African American community were instrumental in the establishment of BFB. However, it is also these same networks that limited the growth and viability of BFB and other black businesses. This is because the isolation and discrimination against black Angelenos—in large part rooted in the coupling of race and space—has limited not only their wealth, but their experience with operating financial institutions. Despite the elite status of the founders, their network reflected the limited collective capital the black community
had. Specifically, in the early to mid-20th century, the segregated black community lacked experience and expertise in banking. As Hudson explains in an interview in 1966:

The main factor I would see with the success or failure of Negro [business] is the lack of experience. The SBA, the Small Business Administration[,] has found the lack of experience the cause of most Negro failures. The lack of experience and know[...]-how and a good bit of the operational of the FBA [SBA] is to help teach Negroes [sic] the economics of the business, stock taking [sic], sales and bookkeeping and those are the things that we never had and you can’t start from a portor [sic] in a grocery store and then organize some company and buy groceries and think you’re going to succeed it just isn’t done that way any more [sic] than a fellow just coming out of a dental college, he has to have some experience before he can expect to do well. (Hudson Oral History 1966:12)

In terms of communal assets, Hudson talked about the drawback of not having an arsenal of individuals specializing in finance when BFB was first established. There were only two black banks that opened in Los Angeles prior to the founders’ establishment of BFB: Liberty Savings and Loan and Unity Finance Company. Unity Finance failed because of the lack of “pooled resources” and because the staff was unable to balance the tension of profit and community. Hudson explains:

It [Unity Finance] failed because nobody connected with it had any idea of operating it and to have a loan company requires almost ruthless procedure we couldn’t have forced [enforced?] laws looking at his wife and children and being too kind hearted was the main downfall of the Unity Finance Company. (Hudson Oral History 1966:4)

As we will see in the rest of the dissertation, this capital deficit that BFB and the segregated black community started off with will continue to pose problems for the bank in the decades to come as it has struggled to make a profit using a resource-poor network in a resource-poor community (Haynes and Hernandez 2007). This is because it affects their ability to realize “bridging” social capital (Granovetter 1973; Orr 1999) that facilitates outside capital’s flow into the community. BFB has been able to realize what Marion Orr (1999) calls “black social capital,” a type of intra-group interpersonal and institutional form of social capital within the black community that helps the BFB staff and leaders garner trust and facilitate transactions at the bank. It is this limited
collective capital (economic, social, etc.) of the black community that reflects a pattern of group inequality that is rooted in racial discrimination and exacerbated by the patterns set up by the coupling of race and space.

Black Banking as a Pathway to Civil Rights: Pragmatism and the War of Maneuver

The founders were using a financial solution to fix the problem of racial inequality. But at the end, this solution may have only enabled racially disadvantaged people to find a better place within the unequal class structure without changing that class structure. The founders’ focus on racism as prejudiced attitudes and discriminatory practices coincided with those of the activists in the early Civil Rights Movement (CRM) who focused on solving the problem of racism through spreading tolerance, building a “beloved community,” and the passage of anti-discriminatory laws that prohibited African Americans a fair chance in accessing jobs, education, public accommodations, etc. (Omi and Winant 1986:69). Comparing these pragmatic goals to those of the more radical civil rights activists of the 1950s and 1960s, the founders may seem conservative, but given the fact that no mainstream financial institution would provide home mortgages to blacks regardless of their wealth at that time, establishing a black bank was a radical step. Through effort and a convoluted opportunity structure in Los Angeles, the founders were able to gain stature and financial success. Their experiences and their principles of social justice led them to engage in financial activism to make things better for others.

The founders were pragmatic and optimistic to the extent that they believed that the bank would make a positive difference in the community. That is, even though they knew that the bank would not be able to end racial inequality, the bank could at least take one step at addressing the issue of financial exclusion. Hudson, for one, had a grounded view of the entrenched reproduction of inequality. In an interview in 1980, Hudson said, “‘[T]he colored man’s really like the white man. The rich get richer, and the poor get poorer. Every now and then someone breaks out of that bondage, but it’s seldom’” (Peyser 1980:296). As pragmatists, the founders
decided to work “within” the rules by investing in a federally regulated bank that demanded conventionality. However, their adherence to their principles of social justice led them to “do” banking in a different way than the mainstream did. In other words, the founders chose to engage in a type of activism that by definition forced them to reform the system, rather than to “tear down” the system as some activists in the CRM of the 1960s advocated. The founders were engaged in what Antonio Gramsci called the war of maneuver in the mid-1940s because the founders were still focused on claiming, expanding and defending their own space—the limited segregated areas to which they were restricted. By choosing to open a federally insured bank, the founders’ decisions regarding the bank were bound to be shaped by the pressures of conformity to the banking institution—or what economic sociologists refer to as institutional isomorphism. It these dynamics of conformity and BFB leaders’ resistance against such pressures that I will elaborate on later in the dissertation.

Although some critics would say that BFB’s form of social activism of working within the rules was too “conservative” by the 1960s, it was such pragmatic activism in organizations such as the NAACP and BFB that laid the platform for the CRM. As BFB founder and NAACP leader H. Claude Hudson explains:

The NAACP was the only civil rights group then. And I hope I can make this as emphatic as it’s possible to make, these other groups never came into being and then after the Supreme Court ruled that segregation of itself was illegal. Dr. King and the rest of them never moved until the NAACP had won the right. And they would have killed King in fifteen minutes in Alabama if the Supreme Court had not said already that segregation was illegal. (Hudson Oral History 1967:16-17)

He continues:

We [the NAACP]…won the case for the right to vote. In the South we won the case of the right to join the [D]emocratic [P]arty. We won [the] right, for even

54 Even though Omi and Winant (1986) identify the 1940s as the turning point where most minorities switched to the war of position because of the relaxing of the social restrictions, the financial system was not one of such institutions that relaxed their social restrictions as redlining was in full swing at that time.
before there was the desegregation of the schools we won the right to go to the University. We knocked out what they called the Grandfather clause—-that if your grandfather was a voter in 1865 or ‘64 then you could vote regardless of whether you were qualified or not. But no Negro had a grandfather who could vote because we were in slavery then. Of course some of us had grandfathers who were white and could vote but they didn’t recognize that feature. Some of us had grandfathers that would permit us to vote and the NAACP knocked that out as illegal... [D]iscrimination in traveling and segregation in interstate travel we broke that down... All of the fundamental battles that give us some status as citizens were won by the NAACP. You couldn’t win anything before the Supreme Court by marching around the building. You could march ‘til you die of old age. You have to put it in legal form for the judge to consider. (Hudson Oral History 1967:17, italics mine)

Although BFB’s work has not had the same impact for civil rights as the NAACP, the BFB founders were active members of the NAACP and supporting BFB was one of many ways black leaders in Los Angeles tried to help blacks gain “status as citizens.” The pragmatic and “conventional” activism black leaders such as Hudson engaged in on multiple fronts paved the way to the successes of the Civil Rights Movement. The founders of BFB were a product of their days and were radical in the context in which they lived—recall Hudson had been lambasted by some for staging the swim-in that led to the desegregation of all Southern Californian public beaches. (Such critics accused Hudson of marring the reputation of African Americans as law-abiding citizens worthy of full citizenship because he got arrested.) Furthermore, near the end of his life, Martin Luther King, Jr. began calling for economic justice—something that BFB had began working toward by helping “one customer at a time” twenty years prior.

As the meanings of both race and racism were continually contested and rearticulated in the decades to follow, the management and staff at BFB continued to combine their pragmatism of following bank regulations with their idealism in building and supporting a strong community and to assist those marginalized by the mainstream through their bank culture, a topic I will elaborate on in the next chapter. From the establishment of the bank until the late 1960s, BFB management and staff continued to work in its community. Furthermore, even after the rise of the “black power” movement and the activists successfully rearticulated racism to include
institutional inequality (structure)—and not only as prejudice (attitude) and discrimination (practice)—BFB continued their work (Omi and Winant 1986:69). This is because the “black power” movement welcomed organizations working under a wide spectrum of political tendencies (Omi and Winant 1986:102) and BFB—even as a moderate organization—had a bank culture with values that aligned with the movement.

The 1970s represented a time of great social transformation and dislocation in the US. During these years, the egalitarian ideals of the 1960s were enacted through state programs and legislation. Race was talked about openly. For example, reflecting the zeitgeist of the 1970s, the bank ran a series of advertisements (circa mid-1970s) that openly talked about race by discussing the role of BFB in addressing the underprivileged conditions and inequity African Americans faced. (In comparison to BFB’s 1970s advertisements, BFB’s more recent advertisements reflect multiculturalism and avoid direct comments on race and racism55. For example, see Figures 3.3-3.7.) One such advertisement that BFB ran in the mid-1970s features an African American man holding a brick in his hand. (See Figure 3.3.) The advertisement reads: “How do you break into the white man’s world? A brick is an easy way. But all it really gets you into is trouble. Unfortunately, too many young Negroes can’t see any other way of crashing the barriers created by poverty, lack of opportunity and frustration. At Broadway Federal Savings we’re particularly concerned. As a part of the black community, we’re well aware of the unrest among our young.”

However, the 1970s was also a time of fragmentation and dislocation. High unemployment rates stemming from weak domestic and international economies and an influx of immigrants and refugees, among other factors, contributed to the fermenting racial backlash that marked the following decades (Omi and Winant 1986:116).

The conservative right launched a reaction the egalitarian ideals of the CRM and

55The diversity seen in the advertisements from the late-2000s (Figures 3.6 and 3.7) also illustrates the inclusive nature of BFB’s logic of reinvestment culture as discussed in detail in Ch.4.
rearticulated racism: accusing the welfare state of wasting money on parasitic recipients; leading a tax revolt and rejecting affirmative action policies because, they claimed, it was “reverse discrimination [for whites]” and “preferential treatment [for nonwhites]” (Omi and Winant 1986:116-117). Omi and Winant write, “The racial reaction initiated in the late 1960s and early 1970s developed in the 1980s into a pervasive ideological effort to reinterpret once again the meaning of race in the U.S…[T]he racial reaction achieved legitimate, if not hegemonic, status in ‘normal’ politics. It attained maturity and power, operating behind a subtle and seductive veneer of opposition to ‘race-thinking’” (1986:136). Color-blindness had become “common sense” and the definition of racism had once again become an individual-level problem instead of a social structural issue. Because racism had been drastically rearticulated within three decades (and in part because the definition of racism was all encompassing under the late 1960s CRM definition), it was unclear how to define racism, let alone, “solve” racism. Therefore, organizations such as BFB were operating under difficult and confusing circumstances by the 1990s. Not only was it difficult to operate a race-based organization in a purportedly color-blind society, but some mainstream banks had begun courting customers in SLA and therefore competing for BFB’s client base. (Moreover, the demographics of SLA was also changing from a predominantly black community to an increasingly Latino community.) In fact, during the LA uprisings in April of 1992, the headquarters of BFB was burned down. Although it seems the burning of the headquarters was accidental, as Elbert Hudson pointed out, BFB was left untouched (or rather, BFB was protected) during the even more destructive Watts Riots of 1965 (Personal Interview with Elbert Hudson 2007). The Hudson family suspects that the arsonist(s) did not know that BFB was a black-owned institution and that the destruction of BFB’s headquarters in 1992 and not in 1965 reflected the less visible role BFB was playing by the 1990s (Personal Interviews with Elbert Hudson 2007; Karen Hudson 2006; Paul C. Hudson 2008; Boyer and Ford 1992). By the 1990s, dramatic shifts had occurred: the colorblind rhetoric of the times had become the norm
and BFB had lost its “captive” market of clients in SLA as mainstream banks moved into the
SLA area and SLA residents relied less on banks within the SLA area as banking technology
advanced.

V. Conclusion: Legacy of the Broadway Federal Bank Founders and the Principles of
Conscientious Capitalism

The founders of BFB responded to their half-free environment by establishing a black
bank that would provide loans and employment opportunities to African Americans when
mainstream institutions would not. Banking was only one of a variety of ways black Angelenos
tried to gain the same opportunities and rights most white mainstream Americans were given
automatically through white privilege. In the face of the depressing setbacks African Americans
were experiencing on the judicial and legislative fronts, black leaders decided to focus on the
economic opportunities within the segregated black community. Banking was a sensible choice,
but it was only possible because the particular contradictions of the half-freedom blacks
experienced not only allowed opportunities for blacks to fight for full citizenship, but the Western
Ideal and the promise of freedom made African Americans even more determined to do so. As
conscientious capitalists, the founders had their idealism, pragmatism and activism in common.
As pragmatists, they realized that financial opportunities and employment training were sorely
needed. As idealists, they had a special attachment to the idea of achieving the American Dream
of homeownership. Moreover, establishing a black bank was a “common sense” choice because
of the historical and segregated context in which the leaders faced. BFB leaders were advancing
civil rights by addressing the lack of financial opportunities facing African Americans by creating
a black bank and developing an economic base in the community.

The isolation of African Americans under Los Angeles’s style of Jim Crow fueled
notions of racial uplift. In particular, part of what drove these networks was the black business
ethos, a model that many black leaders shared. Using this model, the founders were long
involved in building and fostering social and professional networks of resistance that served as hubs of resource and experience that would later be used to establish BFB. Therefore, supporting a black bank was both a duty and profitable. Furthermore, because of the longstanding distrust of mainstream financial institutions due to catastrophic experiences such as with the Freedman’s Bank, it was important to the founders that the bank was black owned and locally controlled as it allowed them the self-determination they wanted and felt they needed to become successful. The BFB founders’ strategy of using black banking as form of resistance reflected the spatial, psychological and financial isolation produced by segregation in the mid-20th century Los Angeles. Engaging in the war of maneuver, the founders sought to claim, expand and defend their own space in South Los Angeles. Doing social activism through a bank allowed the founders to work “within” the rules of the mainstream financial industry, while the control of their bank allowed them to do the social justice work they believed in. The legacy engaging in financial activism through a bank built through a segregated network is that: 1) it made reversing social closure a priority and 2) it made the bank’s overall collective resources poorer. As the literature shows, resource-starved communities beget resource-poor networks. As we will throughout the dissertation, both of these legacies will contribute to the bank’s “swimming against the current” situation where the bank continually struggles with their profitability and growth, while they continue their commitment to “doing good” for the community.

As conscientious capitalists, the founders used a black bank to help those who were excluded because of the color of their skin to find a better place within an unequal class structure. But the uneasy marriage of social activism in a bank had lasting effects on the bank that persists to the present. But at the same time, the principles the founders used to establish the bank was perhaps the most significant legacy that the founders had left behind. The founders institutionalized a bank culture that cultivates sacrifice and communal good to temper the individual, profit-seeking goals of bankers through the logic of reinvestment. In other words, the
founders were able to overcome selfishness—a problem that even Du Bois acknowledged as a problem in his proposition of the Talented 10th. It is their pragmatism, coupled with their dedication for social justice that is captured in their mission and the bank culture that facilitates the staff and leaders’ abilities to achieve the dual goals of the bank: ensuring profitability and cultivating a strong community. As we will see in the following chapters, it is the logic of reinvestment that continues to help bankers to solve the contradictions of profit and community—despite the changes in the nature of racial discrimination and the banking industry since the establishment of BFB.

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56 “‘I assumed that with knowledge, sacrifice would automatically follow. In my youth and idealism,’ he [Du Bois] admits, ‘I did not realize that selfishness is even more natural than sacrifice’” (as quoted in Gates and West 1997:130).
Figure 3.3: Copy of a Broadway Federal Savings and Loan Association advertisement: “How do you break into the white man’s world?” (circa mid-1970s) Courtesy of: Karen E. Hudson.
Figure 3.4: Copy of a Broadway Federal Savings and Loan Association advertisement: “If you’re wondering what it’s like in the underdeveloped areas of the world, get off the freeway and see for yourself.” (circa mid-1970s) Courtesy of: Karen E. Hudson
Figure 3.5: Copy of a Broadway Federal Savings and Loan Association advertisement: “Suppose he can’t sing or dance and he’s a lousy athlete. Then what is he supposed to do?” (circa mid-1970s) Courtesy of: Karen E. Hudson
Figure 3.6: Copy of a Broadway Federal Bank advertisement: “Deposit Programs.” (circa late-2000s) Source: BFB
Figure 3.7: Copy of a Broadway Federal Bank advertisement: “Charter School Programs.” (circa late-2000s) Source: BFB
Chapter 4 The Logic of Reinvestment: The Intellectual and Historical Roots of Pragmatism and Social Justice

There’s a genuine caring and concern about how everybody’s doing, if there’s a need or some type of support,…they try to assist or fulfill it. And it comes from, you know, a generation that started many, many years ago because they saw that the key to survival was helping each other.

Mary Ann Curtis, Relationship Manager

I. Introduction

In 2008 when I began my internship at Broadway Federal Bank (BFB), the bank had been operating for over half a decade and had gone through tremendous changes since its founding: the demographics of its South Los Angeles (SLA) community had changed from being predominantly African American to Latino; the banking industry itself had gone through major structural changes; and the roles and meanings of race and racism in the country as a whole had changed as well. When the bank was established in the 1940s, racism was blatant, but race itself was not much discussed; from the 1960s through the 1970s, race was discussed openly and racism had begun to be more subtle. But by 1980s, the nation begun to adopt the idea that racism was dead and the country operated on colorblind principles. (See Omi and Winant (1986) for more.) So when I, a Chinese American graduate student, cold-called BFB one afternoon to ask if I could do an unpaid internship in order to study how a race-based organization such as BFB operates in a so-called colorblind society, I was not sure what to expect. I had already tried to use personal contacts to get an unpaid internship at a Chinese American bank and was turned down. I was told by various people that without personal contacts, I would never be able to get an internship at a bank because of its inherently private nature, no less at a black bank—where I would “stick out.” After leaving a message with the president’s assistant, I was sure that I would never get a call back. To my surprise, not only did I get a call back within an hour, but the president personally called me back and welcomed me to study his organization. From the first day I interned at the bank, Paul C. Hudson, President of BFB, told me: “My door is always
open”—and it was. For the roughly two years I interned at the bank and all the times I dropped by afterward for visits, Paul always made time to talk to me and answer my questions. For a long time I wondered how and why I was accepted at the bank so easily by Paul and the rest of the bank employees, while other ethnic banks did not even bother calling me back. I realized that Paul’s attitude toward mentoring me and the acceptance and friendliness I experienced with the rest of the BFB team (as seen in the chapters to come) was rooted in the bank culture I call the logic of reinvestment (LOR). I argue that the LOR is what has helped BFB achieve the dual goals of profit and community and, in large part, how the bank survived the decades of change in the community and the banking industry. The LOR provides continuity by shaping values, priorities and procedures among the generations of management and staff.

As mentioned in the previous chapter, the LOR is based on the founders’ style of financial activism, which reflects the principles of pragmatism and social justice (i.e., of freedom, equal opportunity and empowerment). The LOR is one of the most important legacies of the founders left behind at BFB: the staff uses the LOR to help make daily decisions because their way of being embodies this logic and that in turn shapes the way they handle the tensions of profit and community. Even though the logic can be understood as the rationale of giving back to one’s community, it is different from the rationale often used by mainstream organizations that “do good” (e.g., in operating a Goodwill store) because it is rooted in empowerment instead of charity. This historical legacy of giving back through economic organizing and collaboration can be traced to the pre-emancipation days—as I have discussed in Ch 1. Free blacks in the North attempted to pool their money to create an ethnic bank that would serve other blacks. This historical legacy of “giving back” and intra-racial and -ethnic collaboration can clearly be seen in Kevin Gaines’s *Uplifting the Race* (1996), which traces the history of the ideology of helping “one’s race” among African Americans. I argue that the logic at BFB is different from what Gaines describes because the organizers identified economic empowerment as a way “to do”
racial uplifting and the people at BFB are focused not only on African Americans, but also on the notion of justice so that the goal can be expanded to empower all those who are marginalized. In the first part of the chapter, I define the LOR and elaborate on the historical roots of this rationale in the legacies of the African American experience and urban activism. In the second part of this chapter, I describe the principles of the LOR that help the BFB staff prioritize “giving back to the community” in everyday decisions at the bank and the consequences of such actions. I focus on how the LOR is applied to the workings of the bank and what it means to the people who use it. The prominent themes when the logic is applied to the bank are: second chances, listening, vested interest and networking. All of these themes are connected because they all point to one of the main goals of the mission and people of the bank—to share privilege and power.

II. The Logic of Reinvestment: Theoretical and Historical Roots

Defining the Logic of Reinvestment

In 1977 Congress passed the Community Reinvestment Act (CRA), which requires banks to “reinvest” monies in the communities in which they took deposits. The CRA was a bill lobbied and advocated by urban activists for many years who tried to draw attention to the issues urban dwellers were having in securing loans from banks who were taking deposits from them, but not providing loans. Under the CRA, most federally regulated depository institutions (such as the ones regulated by the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision and the Office of the Comptroller of the Currency), “have a continuing and affirmative obligation to help meet the credit needs of the local communities in which they are chartered.” And if and when such institutions “seek permission to open a new branch, merge or purchase another institution, increase their depository insurance, or to make almost any other significant change in their business practices,” the regulators must take account of the institutions’ CRA rating which range from outstanding, satisfactory, needs to improve, or
substantial noncompliance (Squires 2003:10).

The CRA was an incredible feat for urban activists. But years before the CRA passed, racial and ethnic leaders had been struggling with a similar type of neglect in their communities. (See Ch. 2.) In fact, the history of ethnic banks is a testament to the type of financial marginalization minorities have long faced in American history. But what is important about the CRA to this story of BFB is that it made public the struggle and issues that BFB founders (and other ethnic bank founders) have long fought against—it brought the issue to the mainstream by getting Congress to acknowledge and act on it. In addition, it captured the spirit of reinvestment in which most ethnic banking leaders have tried to practice in their own communities. I chose the term the “logic of reinvestment” to describe BFB’s bank culture because of the multifaceted ways the BFB team reinvests in the community, but also because of similarities between the BFB bank culture and the urban movement history of bank reinvestment. In this chapter, I argue that BFB leaders have enacted CRA requirements by using what I call the logic of reinvestment (LOR) since the day they opened their doors for business.

The “logic of reinvestment” refers to the rationale or schema that guides the staff’s decisions to “give back” or to make a positive contribution to their community. Following the Bourdieuan tradition, by schema, I mean the cultural rationale in which agents use to enact instrumental strategies (Biernacki 1995:24). Therefore, the LOR refers to both a way of being and/or connecting—a style of interacting that encourages agents to come to a decision by relying on one another; and also a criteria for decision-making which focuses on the principles of calculated compassion, second chances and flexibility—principles that are rooted in the values of social justice and pragmatism the founders espoused in the previous chapter. The LOR facilitates the staff’s conviction to “give back.” And “giving back” can take many different forms—for example, it can mean supporting a non-profit such as “Recycling Black Dollars” where African Americans are encouraged to spend money at black owned businesses or it can mean providing
financial literacy workshops for domestic violence victims at a shelter. In sum, the LOR shapes and guides communication and action.

The bank culture at BFB is similar to what Rick Fantasia (1988) describes as “cultures of solidarity” in labor unions. Also studying consciousness and action, Christena Turner in *Japanese Workers in Protest: An Ethnography of Consciousness and Experience* (1995) relies on a similar idea in describing how corporate culture shapes (and is shaped by) individuals with disparate reasons to come together at the workplace to pursue a similar goal. She asserts that even though corporate culture is intentional, there is no neatly demarcated dynamic in which all actions by agents are clearly and directly shaped by conscious thought. Instead, culture is complex and can persist through time, but not in an uninterrupted or unchanged way. BFB’s LOR is based on the culture of resistance and therefore its changes mirror the transformations of what they are resisting. The culture of resistance is a logic—a formula on how to do daily business—but the LOR does not necessarily operate like a scientific and precise formula. Instead, culture is part of a complex interplay with structure and agency (Bourdieu 1986). As Turner writes, the line between consciousness blurs: “Class consciousness and solidarity are built out of experience as much as out of ideology, and the motivation to protest is sustained in anger over threats to unexamined, commonsense assumptions about human dignity as often as in discursively debated issues of workers’ rights” (1995:18). Moreover, in her ethnography, she captures what she deems critical: “the interweaving of experience, consciousness, decisive action, improvisation, and serendipity that is the stuff of daily life and of ultimate meaning” (Turner 1995:18). Turner argues that in the workers she studies, these phenomena “resist closure” because social life is a process in the making (1995:18). Consciousness shapes action and vice versa. Both sustain one another.

As I will elaborate in the following chapter, the bank culture at BFB is a logic that shapes how agents are trained to know when to trust and to use their judgment. The LOR demystifies
the often ill-defined issues of trust and judgment in banking at BFB by informing agents of strategies and principles to make such decisions. But the logic, however central to the everyday life at the bank, is also not explicitly discussed among the staff and management. (However, what BFB agents do often refer to are the feelings of “family” and “home” they experience at the bank due to the LOR, topics I will elaborate on in the next chapter.) By interpreting my data from participant observations and interviews, I have pieced together how the employees understand and practice it.

**Reinvestment as “Taking Care of Your Own”: Communal Self-Help for Survival**

The LOR is captured by a wealth manager named Mary Ann when she talks about her own family and how it has led her to work at a bank like BFB that has a family-atmosphere and its own version of “reinvestment” or what she describes as “taking care of your own”:

I happen to have come from a family that was very close…Politics and history were commonplace and commonly discussed in our family gatherings. And my grandmother had a thing about supporting one another. I’m as close to my cousins as I am to my brothers and sisters. I’m as close to my aunt and uncles as I am to my parents. There’s a genuine caring and concern about how everybody’s doing, if there’s a need or some type of support,…they try to assist or fulfill it. And it comes from you know, a generation that started many, many years ago because they saw that the key to survival was helping each other. And that type of, those type of family roots, those type of family ties, I think you see in an institution like this because it’s, it’s kind of bred that way. People come in and they look at families, you know, and it’s sort of like “it takes a village,” and this [bank] is a village…(Personal Interview with Mary Ann Curtis 2010)

Mary Ann conveys a mutual interdependence among a close-knit group of people who consult and support one another that encapsulates the rationale of the LOR. In fact, Mary Ann views the genuine care and commitment to support one another in her family as similar to the commitment to help the community at her workplace:

I can honestly say there’s a, there’s a strong sense of community especially amongst individuals that are wanting to contribute and to make things better. And they *really, really* care. They *genuinely* care and are willing to, do the heaving lifting. So that’s kinda cool. You know, I’d say that that’s what I’ve gotten from the work. I’ve gotten uh, a real strong sense of [pause]--a need. Yeah, a need that needs to be filled… A need within the community and I’m just a *small* little
Mary Ann shows how the family-like concerns can extend beyond actual kin at BFB, which is fundamental to the social justice activism BFB staff and management are engaged in. The LOR cultivates a special bond among the group and a commitment to “pitching in” to improve the community. This interdependence is rooted in the pragmatism and social justice that form the basis of the LOR. The resulting atmosphere of trust at the bank and in the community is a process that is continuously constructed.

The idea of “pitching in,” although a strong theme in black intellectual history, exists in all ethnic groups. That is, it is not only the African Americans who are groomed in this longstanding ideology of uplift that can participate and dedicate themselves to BFB’s mission. In fact, Mary Ann is of mixed race and talks about how some of her ancestors were Scottish and they too were involved in a form of uplift as her ancestors helped other Scotsmen “acclimate” to their new home in the U.S.:

My great-grandfather’s ancestors or whatever came over on the boat. I, we, know that the first McKesson was born in Philadelphia in 1734 and his father came over in 1731 and he was, you know, there are a lot of attorneys in my family, he also was an attorney. And he was a member of the St. Andrews Society which was a, a society where a number of the founders of the Declaration of Independence, you know, signed. And he was not a signer but one of the members of this organization...it was an organization that was dedicated to helping Scotsmen acclimate to the new country and in that group was also the founding member of Princeton and John McKesson graduated from Princeton. He was one of the first graduates of Princeton Law School.

Furthermore, there are (and have been in the past generations of BFB staff) non-black staff members who feel very strongly about the LOR and who play influential roles in assisting the bank in achieving its mission: whites, Latinos and Japanese Americans have been longtime employees at BFB. In fact, savings and loans associations were founded upon this logic of “pitching in.” In a mutual savings and loan, each member (or depositor) is a part-owner. Members put their money in the savings and loan so that fellow community members can borrow
money in times of need. The savings and loan movement in the United States was inspired by the savings and building movement in 19th century England where people felt like they should all contribute to society, a philosophy that reflects the general belief in “giving back” to “your own.”

“Racial Uplift”: Logic of Reinvestment’s Roots in Black Intellectual History

As mentioned above, the idea of “giving back” or supporting one’s own community has been a deeply rooted theme in the African American community. Kevin Gaines captures this history in *Uplifting the Race: Black Leadership, Politics, and Culture in the Twentieth Century* (1996). Gaines calls the idea of “giving back” that has existed throughout black intellectual history “racial uplifting.” He argues that the original notion of racial uplift was rooted in egalitarianism. In the post-bellum period, black leaders were concerned for the newly freed slaves who were starving as they had few means to support themselves. Novelist Frances Harper viewed uplift as “epitomized by the quest of blacks for literacy, higher education, power and self-reliance” (Gaines 1996:37). Uplift was centered on notions of “compassion, service, education, and a commitment to social and economic justice for all citizens” (Gaines 1996:260). Therefore, the concept was not limited to the practical service to the greater common good for blacks, but was an ideology embodying the spirit of “black commitment to blacks” (Gaines 1996:37). Mary Ann’s Grandmother’s value of having family members be committed to the wellbeing of each other can be seen as part of the larger racial uplift rhetoric. In the same vein, BFB’s commitment to the wellbeing of the community is also rooted in the uplift ideology. However, I argue that BFB employees embody a particular form of racial uplifting that is different from the forms of racial uplift Gaines describes. Therefore, I have called BFB’s form of racial uplifting the “logic of reinvestment.”

Although the idea of “giving back” to one’s community has been a prominent theme in African American history, the particular ideology of racial uplift did not appear until the early 20th century when middle-class African American leaders struggled to escape the violence and
exclusion they endured in post-bellum America. They believed that having a positive black identity could help them become more acceptable to the white mainstream and therefore help them escape the humiliation and violence that African Americans were subject to—regardless of middle-class status. Advocates of the ideology believed that with the group’s material gains and displays of moral progress, white racism would abide and blacks could finally be accepted as equal citizens and they would successfully “assimilate” into the mainstream.

Gaines (1996) argues that the original notion of racial uplifting was later split into two camps: those who used the uplift rhetoric for egalitarian and communal goals and those who used the rhetoric for individualistic and status gaining pursuits. That is, although the idea was originally democratic, some elites interpreted the ideology as a means of helping themselves on the backs of others. Some saw themselves as the elite “agents of civilization” and condescendingly attempted to distinguish themselves from the “masses” of blacks since they believed they were the group’s potential. This group was composed primarily of the middle class and they were worried about their own status in American society. Concerned that white Americans would not accept them and group them together with poor blacks, this group of middle class blacks found ways to step on the backs of the poor to uplift themselves in the eyes of white America. For instance, this group of middle class blacks participated in stereotyping, controlling and demonizing poor blacks as a way to distance themselves from them. Many middle class blacks did so regularly by emphasizing how their middle class behavior was so different from the so-called “vulgar” behavior of the poor blacks.

To those who see capitalism as a system that inherently creates inequality, BFB’s egalitarian pursuit to create financial opportunities for community members is at best, full of contradictions and at worst, doomed from the start. (And it is these contradictions that I will examine further in the following chapters.) Moreover, because of the elite status of BFB’s original founders and the bank’s mission to help expand the middle class dream of
homeownership. BFB employees may seem to belong to the group of status-conscious middle class leaders who did not value egalitarian or communal goals. But BFB does not fall into either of these binary positions of uplift. The staff at BFB employs a particular form of racial uplift--the “logic of reinvestment”--because they are fulfilling the bank’s particular mission to 1) empower its community members by making financial services and opportunities more equitable to as many as possible and also to 2) stay solvent and profitable.

BFB’s form of racial uplift is noteworthy because first, BFB’s LOR does prioritize egalitarian and communal goals as we have seen in throughout this dissertation thus far. (And as we will see in the next chapter, BFB’s senior management even tries to instill egalitarianism within the workplace among the management and staff.) Although it is true that BFB leans more to focusing on the needs of the middle class, it does nevertheless attempt to cover a wide spectrum, which is markedly different from the actors described in Gaines’s book who only focused on helping the middle class only while they denigrate the poor and working class blacks. BFB attempts to help not only the middle class, but provide services, opportunities and financial literacy education to the working class and the most vulnerable as well—such as providing services to the homeless and victims of domestic violence. Indeed, the priorities that BFB employees set on the welfare of the community and its members seem to fit into what Gaines (1996) describes as the communal-oriented racial uplifting advocates’ “ethos of self-help and service to the masses.” Second, BFB’s practice of egalitarianism readily includes the idea of expanding opportunities for all marginalized people because BFB’s particular form of uplift ideology is coupled with the notions of social justice and empowerment. BFB’s inclusion of non-blacks is not a central characteristic of the people and organizations Gaines describes in his book. This is another reason why I use “the logic of reinvestment” instead of “racial uplift” to describe BFB’s bank culture: racial uplift is centered on the notion of uplifting African Americans whereas “the logic of reinvestment” is about uplifting all types of marginalized people in the community,
regardless of race. The LOR is not just about promoting and supporting African Americans. Instead, the LOR revolves around the notion of justice for all in the community—even though they have traditionally focused on assisting African Americans (and continue to do so in part due to the legacy of the establishment and also because African Americans still constitute a large number of SLA’s residents). Moreover, the LOR has less potential to be seen as divisive by outsiders—unlike the concept of racial uplift, which can be interpreted as a way to separate or privilege one race over another. Finally, BFB’s form of uplift is different from what Gaines describes because the founders wanted to uplift the community through economic empowerment. They decided to do this by harnessing the power of a financial engine of the community because they wanted more control over their community’s financial welfare. The “self-help” and service the founders advocated is different from the condescending connotation that this idea sometimes took because BFB’s mission is centered on the notion of empowerment, not charity.

**Race as Power: “Reversing” Whiteness as Power and Sharing Privileges of Whiteness**

It’s not so much about the color or the race, it’s about a goal. It’s the goal about being the best.

Estella Carr, Loan Services Consultant

The employees at BFB often define race in terms of power instead of the color of one’s skin. Therefore, in their quest to help the community, “community” can be defined as those who are marginalized instead of only those who are African American. (However, sometimes race is also understood in the more conventional way (i.e., as skin color) as well.) As mentioned above, in addition to having what Gaines describes in racial uplifting as a “black commitment to blacks,” the people at BFB also have a more inclusive approach that expands this commitment to helping all those who are marginalized—regardless of race. Latinos and other groups who were living in the community have always been welcomed and included at the bank since its founding.

Mary Ann describes the diversity at the bank this way:
I see Broadway as a community bank. …Broadway began in an African American community but has become more of a minority face. Okay, because there’s a large Latin[o] influence too, within the bank. … I think that Broadway represents uh, more of a diverse community bank than an African American bank. I think that legacy and the history is awesome because it was established and created out of a community where there was definitely a need, ok, but it didn’t remain within that community. I think it’s spreading, or has spread into the other minority communities, okay. And the neat thing about that is that you bring together more opportunities for business, so I guess I see it more, I see it more of a community type of bank.

She continues,

Broadway certainly cares a great deal about the African American community and I think that’s great, but it also cares about other minority communities. It sees a strong influx of a Latin[o] community, it’s also very receptive to Asian communities, ok, so I don’t think that it, I think the reason others might call it an African American bank or a Black bank is because of its history. But I don’t see it solely focused in one area.

Estella explains BFB’s commitment and understanding of diversity in this way:

Broadway has never been totally black. A lot of our tellers, some of them are from El Salvador. Even some of the people here that are black, they are from different countries. Leo, our branch manager, I think he’s from Belize. Yeah, you know so, and he speaks Spanish, which gives him an added plus for being on that side of—in the Expo branch. But it’s not so much about the color or the race, it’s about a goal. It’s the goal about being the best. I know that for me, that it was my goal here—to be the best that I could be for Broadway, for the community. And I know, and I believe that’s Paul’s goal—is to make Broadway the best. (Personal Interview with Estella Carr 2007.)

For Estella, reaching the goal of being “the best” meant “giving back to the community” by making BFB a strong and stable financial institution that can educate and provide counsel to the community in financial matters and to train people in banking in order to give them a chance to become successful in the industry. From her perspective, the community meant marginalized people who are in need of BFB’s services: those who are limited in their access to resources and opportunities.

One of the reasons why the bank’s form of racial uplifting is set-up to include other racial groups is because their notion of blackness is different from what blackness is often understood as—the color of one’s skin. BFB’s understanding of race is complex and multi-faceted so that it
can mean different things at different times. Sometimes, “black” refers to African Americans. In other times, “black” or “blackness” can refer to the marginalization that all people have faced in U.S. history. Because BFB sometimes adopts this definition of “blackness” as marginalization, they can therefore readily serve all those who are marginalized regardless of whether or not they are African American. Put simply, sometimes the “racial” component of BFB’s racial uplift philosophy is based not on race per se, but on power.

To explain this point, I rely on George Lipsitz’s notion of the possessive investment of whiteness. In *The Possessive Investment of Whiteness* (1998), Lipsitz argues that the definition of whiteness is pivoted on the notion of power, instead of skin color—although the two often overlap. In other words, whiteness symbolizes the power and privilege of a certain group of people. Especially since the passage of Civil Rights legislation, nonwhites have been able to “invest” in or participate and be a part of the system of power that was formerly reserved for whites. Since in the post-Civil Rights Movement (CRM) era, it is no longer true that only whites have power in the form of white privilege, it creates the important distinction between white and whiteness. White refers to a group of people, while whiteness refers to the system of power and privilege. Individuals who want to maintain their identities, privileges and power over others

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57 There is rich history on the social construction of “blackness” that I am unable to cover here in detail. In short, Pre-emancipation, blackness was constructed as a response to group oppression. It was unified under the slave culture because blackness signified the antithesis of freedom. Post-emancipation, the meaning of blackness became contested by two main camps who struggled to define blackness. One camp was the accommodationists like Booker T. Washington who encouraged blacks to develop self-dignity and determination to prove to whites that they are worthy of equality. He believed that by displaying so-called American traits of patience, diligence, and loyalty, whites will be convinced of how “American” blacks really are. Washington promoted conciliation with whites because he believed that like the German and Irish immigrants who arrived to the US in the mid-1800s, blacks will become accepted into the mainstream as well. In sum, Washington believed that blacks to put all their effort into “proving” themselves worthy of white acceptance instead of attacking the structures and institutions that bar them from full citizenship. The other camp, led by people such as Marcus Garvey, were the nationalists and Pan-Africanists who asserted that blacks must separate themselves in order to achieve cultural self-determination (Hale 1998:29-30). Garvey believed that blacks would advance politically, economically, and socially only under an African government that blacks controlled free from European colonial power.
protect this system by “investing” in its exclusivity and power of whiteness. (For more, see Lipsitz 1998).  

Since the label of “whiteness” signifies those who have access to power, “blackness” sometimes comes to stand for those without power. I argue that in certain moments BFB adopts this definition of “blackness” and therefore is readily able to expand the definition of who is “black” (i.e., marginalized) and help even those who are not African American—even though, of course, BFB simultaneously focuses on the needs of African Americans. Interestingly, at the same time, in the moments in which BFB sees “blackness” as referring to African Americans, they try to redefine the negativity associated with “blackness.” And that is partly why BFB is so important and symbolic for the African American community: it is because it is a beacon of hope and a source of pride—evidence that African Americans, just like whites, can own and run a successful financial institution. So while the successful, skilled and knowledgeable professionals

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58 To further understand the historical process of the constructing whiteness and blackness, David Roediger’s and Grace Elizabeth Hale’s works provides an example of how a group of Americans constructed whiteness and why. In The Wages of Whiteness: Race and the Making of the American Working Class (1999), Roediger argues the white working class constructs whiteness in order to deal with their fear of depending on wage labor, capitalistic discipline and the threat of black labor on their job security. Specifically, he argues that the white working class created and perpetuated racist ideas mainly for a “psychological wage” of feeling superior to another group, namely African Americans. Roediger acknowledges that the white workers may have been motivated to construct and assert “whiteness” because they saw blacks as a threat to their jobs (See 1999 150). However, his main point is that working class whites—as a group that was insecure about their future—defined blacks as the “other.” By doing so, whites could project their fears and thoughts onto another group and define themselves as superior (Roediger 1999:154). Thus, the formation of the white working class developed “hand in hand” with the sense of whiteness (Roediger 1999:8). In Making Whiteness: The Culture of Segregation in the South, 1890-1940 (1998), Hale shows how the construction of “blackness” happened simultaneously with the construction of “whiteness” and how whiteness and white privilege is developed as form of cultural social control for white Southerners. The identities of whites became unstable with the freeing of slaves and at the same time, emancipation unhinged the African Americans identity from slavery. The unified slave culture of African Americans was no longer sufficient to capture the identity of African Americans. With their new freedom, African Americans could now define themselves in a myriad of ways, such as Americans or southerners (16). However, Hale argues that whites were the first to create slave and free images of African Americans (1998 17). The small, but important spiritual, ideological and social autonomy—or “necessary space”—that slaves maintained in their culture despite interacting with the larger American culture, had also become a means of cultural control after emancipation.
at BFB are “divesting” in “whiteness” by sharing the privilege, knowledge and power they have
gained by “investing” in the white power structure, they are at the same time “investing” in
“blackness” by assisting African Americans and all others who have been marginalized through
helping them gain financial security and providing them financial opportunities they would not
have had if not for BFB. In sum, instead of viewing blackness as part of the “othering” process
that happens in the construction of “whiteness” and the creation and maintenance of the system of
white privilege, I use blackness to mean the opposite of the objectification of minorities—I use it
to denote the agency blacks have used to dismantle the monopoly of resources under the system
of white privilege.

Indeed, this idea of sharing power and privilege with the marginalized has always been at
the root of BFB’s legacy. Recall from Ch. 3 where the founders used their knowledge, skills,
reputations, middle class status and political connections with sympathetic politicians such as
Congresswoman Helen Gahagan Douglas to establish the bank. The founders were “reinvesting”
pieces of their “investment in whiteness” back to the community, unlike some people described in
Gaines’s book who literally treated their status, power and privilege (i.e., their whiteness) as a
possession not to be shared with other African Americans. (For example, Gaines (1996)
describes how people like Booker T. Washington used his power for individual gain by
supporting programs and organizations that would keep African Americans as second class
citizens so that he could increase his status in the eyes of the white, mainstream society.)

Perhaps the most literal example of the founders sharing privileges and knowledge that came with
their possession of whiteness is from one of the central figures of BFB’s history: co-founder H.
Claude Hudson. As discussed in Ch. 3, Hudson was a dentist from Louisiana who moved his
family to Los Angeles in the early 1920s because he did not want his children to suffer the
violence and indignities of living under a KKK dominated community. Apparently, Hudson was
often mistaken for a white man because he had such fair skin and sometimes Hudson used this to
his advantage. According to a popular story told to me by a longtime BFB customer (Personal Interview with Kevin Hogg 2007), the only reason why Hudson was accepted to the all-white Loyola Law School was because he “passed” as being white. Apparently, no one knew he was black until one day a civil rights issue regarding the treatment of blacks was being discussed in class and Hudson spoke ardently on the issue arguing for the rights of blacks. This was the alleged moment where his classmates wondered why he was so passionate about the issue and then “did a double take” and realized he was African American. Hudson became the first African American to ever graduate from that school and went on to use his knowledge of law to work as President of the Los Angeles chapter of the NAACP. Although it is true that Hudson is the first black person to have graduated from Loyola Law School, it is unclear if that story is accurate. Nevertheless, the story was so well known and so widely circulated within the SLA community in the mid-20th century, it has gained legendary status.59

In sum, part of my intention with using the concept of the “logic of reinvestment” is to create a new term that reflects the diversity of people, ideologies and the particular financial circumstances that BFB employees operate under. The LOR consists of these elements: on one hand, it is a way of being that promotes strong connectedness and unity and on the other hand, it provides criteria for decision-making for the management and staff of BFB to help achieve the dual goals of community and profit. The LOR embodies listening, flexibility and pragmatism as

59 I met Kevin Hogg, the longtime customer of BFB, while volunteering at a BFB booth at a community fair. Hogg was in his 80s and became lively when began reminiscing about how everyone in the “old days” talked about how “old man Hudson” [H. Claude Hudson] only got into Loyola University because nobody knew he was African American because he had such fair skin. Although I could not verify the authenticity of this story, in a 1967 interview, Hudson did mention how he was able to “pose as a Caucasian” when he discussed his involvement with the famous Sweet Trials (1925-1926). Dr. Ossian Sweet, a black physician, was tried for murder because he shot into an angry white mob who wanted to drive him and his family out of their new home that was in all-white Detroit neighborhood. Hudson recalled, “If[‘]s interesting to see, I went into a meeting, the meeting was at USO hall near Wrigley Park, at that time it was all white and I had not been here so long to be so well known and I went into the meeting in to what they called the white neighborhoods” (Hudson Oral History 1967:10).
operating principles that allow the banker to give clients who have made mistakes a second chance by using calculated compassion. This has allowed BFB to avoid the common fates of black banks that have failed. (See Ch. 1 for more.)

III. The Logic of Reinvestment in Practice: Calculated Compassion, Second Chances, Flexibility, Listening

Listening, Flexibility and Building Relationships: “We listen…We try to make it work.”

The philosophy and practices of Paul C. Hudson, the third generation CEO of BFB, reflects the embodiment of the LOR bank culture. Paul and the employees’ compassion to take the time to listen to their clients and give “second chances” is rooted in the LOR that acts as the backbone of the bank. This results in practices of forgiveness and calculated compassion. One of the key strategies that enable BFB employees to use their logics is by taking the time to listen. This allows them to be more “flexible,” and helps them make safe and sound financial judgments when working with their clients. (As mentioned in previous chapters, BFB’s longevity as an independent bank and their low foreclosure and zero subprime rates speak to this safe and sound judgment.) The importance and centrality of the staff and management’s empathetic and effective communication with their clients is best described by Teri, the loan service manager:

We talk and we listen, do you know what I mean? We talk to our customers and we listen and most importantly, we know our customers. That’s the key to me because we contact them—we know their patterns. We contact them before things get out of hand [and are forced to foreclosure on their homes]. We try to create a solution to the problem. We try to make it work. (Personal Interview with Teri Bernard 2007)

As the loan service manager, Teri sees how many of SLA’s community members live in the margins and therefore have financial histories that often fall out of the mainstream financial industry’s traditional definitions of having “good” credit. She believes that BFB is unique because the bank staff goes out of their way to provide excellent service and solutions to the challenges that community members may have without putting the bank in jeopardy. In a 2007
interview, she explains:

Broadway is not saying that ‘It is what it is’ [as if it’s] black and white—if you’re not here, no. Broadway would look at your situation and try to create a solution for you. I see in their books…but if you look at our reports, the loan portfolio is good. Compared to what’s going on right now, you will see that even though they’re making those decisions to customize the customer’s needs, to meet the customer’s needs, they still have a strong credit criteria and they make it work. It makes it work. So, Broadway must be doing something good because a lot of other banks out there are suffering right now in their portfolio. Broadway’s not.

Indeed, one reason why BFB is flexible may be due to its size because as a small bank, the management may not be as rigid and may have a less strict adherence to uniformity. Richard, an underwriter, talks about BFB’s flexibility and how BFB is different from mainstream banks regarding loans. Richard has worked for three other banks before coming to BFB—the last of which had 5 billion dollars in assets. He describes the loans at mainstream banks as if they’re on a “conveyor belt”:

Yeah, see large banks they have a—everything is like a conveyor belt. They’ve developed a system that has to work so if it’s out of guideline, it’s too much paperwork and hassle to go through approval, so they say, ‘No. Next.’ But small banks, everything we do is valuable, so they try to make sure they can kind of structure it before they say a final ‘No, we can’t.’ (Personal Interview with Richard Trotter 2007)

In Richard’s experience working at various mainstream and community banks, bigger banks deal in “bulk” business. Therefore, they are not as likely to take the time to fund those who do not fit their guidelines exactly because they are too bureaucratic and have many other customers who fit their streamlined model.

**Prioritizing the Community: “Two different goals in mind”**

In addition to what Richard is saying, I argue that another important reason why BFB management and staff are flexible is because they actually really care about the wellbeing of their customers. As I will elaborate later in the chapter, they have a vested interest in seeing their customers do well and they take on difficult and time consuming loans not solely because they have fewer choice in customers as compared to mainstream banks, but because they genuinely
want their customers (who are often part of their community) to prosper because when their customers prosper, they prosper. BFB’s mission and commitment to serve its community makes it dependent on the well-being of its community members.

We see the critical role that the LOR plays over and over again. Lorraine, an employee who has worked for BFB over a span of two decades, explains that the BFB management and staff listen because they are tied to the community. Lorraine clarifies how BFB is different from mainstream institutions and how they are able to and why they want to achieve the dual goals of profit and community in the first place. She describes why BFB plays such a vital role in the community, a role that mainstream banks cannot fill:

The result is so different because mainstream institutions versus community institutions have two different goals in mind. The mainstream guys are worried about the numbers, a lot of them are statewide--the majority is nationwide so they don’t necessarily care about any one particular community or another. They are just out there trying to get the masses to come in to build up the coffers so that they can continue to keep their doors open. Community banks, Broadway in particular, are actually in communities that they are concerned about, so we can take a lot more time working at who you are and try to figure out a way to help you achieve or whatever you are trying to do financially. Those guys say, ‘I don’t have time for you. I don’t have time for you because you know five other people are standing behind you in line and if you don’t want what I have, that’s fine, step aside so I can get to the next one.’ I think that’s the biggest thing. (Personal Interview with Lorraine Roberts 2007)

Lorraine further explains how BFB goes about assisting community members in ways that mainstream banks do not:

I think the hottest topic they have now are trying to put home loans out minority folks haven’t had a fair shake in trying to get loans to buy homes and you know you might not have credit, you might not have your money in place but we have people here who will need to listen to your story, people who can help you get yourself in line to be a better applicant, people fully qualified and for people who have borderline issues I think Broadway takes the time to sit there and look at your complete picture and not just your credit rate and they take all of those things in consideration, with the greater understanding that we like people in our community to be home owners because home owners are people who are tied to the community and want to see the community prosper.

Lorraine agrees with Richard’s assessment that one reason why community banks like BFB take
the time to work with customers who do not exactly fit their guidelines is because unlike large mainstream banks, BFB does not have customers lined up at their door. But the relative lack of customers does not fully explain why BFB would accept the “opportunity cost” of spending so much time and energy to listen to the customers’ stories and issues who are bringing in small business. In other words, the BFB staff could be using the time, energy and resources they spend on the small-time community members by going after wealthy, elite customers who can easily bring a million dollar loan to the bank. (As a bank executive elaborates in Ch. 6, sometimes it is frustrating because often the larger loans are not only more profitable, but they can be easier and faster to do as well—thereby saving time, energy and opportunity cost.) In the business world, time is money and as Richard explained, fitting the particular “mold” set by the financial organization is critical in successfully gaining access to services. Thus, the more time BFB employees work with a particular client, the less time they have to work on other transactions that may add to BFB’s profit margins. This is the opportunity cost that BFB employees are often willing to accept because they also have to reach their other priority: helping marginalized community members. In fact, one highly recognized loan officer told me that being able to help people re-build their credit is one of the most rewarding aspects of his job. An alumnus of Howard University and a former lawyer, Walter has received the “Employee of the Month” award on several occasions and various other accolades from the management and his colleagues at the bank. Walter routinely provides one-on-one credit counseling with loan applicants—even with those who have been denied a loan. Seeing formerly denied applicants come to the bank for multiple loans over the years after he has advised them on how to fix their credit weaknesses is one of the most gratifying parts of working at BFB for him. When I asked him how many failed applicants successfully re-built their credit scores after he advised them, he said just a handful. But that did not bother Walter. He was proud that he was able to provide a second chance to people who would not have likely been able to get financing elsewhere (Personal Interview with
Paul C. Hudson and Calculated Compassion: “If you make a mistake, how do you get back into the system?”

As seen thus far, there are various and overlapping reasons why the management and staff at BFB take the time to listen and attempt to be flexible. But I argue the central reason is because they truly want to reinvest in their community and see their community members grow. The LOR bank culture shapes an atmosphere of forgiveness. As mentioned in Ch. 3, Paul C. Hudson is a 3rd generation banker at BFB—his father and grandfather served as president and Chairman of the Board of Directors. Both of Paul’s grandfathers were founding members of the bank: Paul R. Williams, Paul’s maternal grandfather, and H. Claude Hudson, Paul’s paternal grandfather. (Williams and Hudson were best friends and Williams’ daughter married Hudson’s son.) Paul grew up in Los Angeles. His father and paternal grandfather were lawyers who by happenstance also became leaders at BFB. As though by fate, Paul followed a similar trajectory. He received his jurisprudence doctorate one of the nation’s most prominent law schools, UC Berkeley’s Boalt Hall. Although he did not have plans to become a banker, he returned to Los Angeles after working for a prestigious legal firm on the east coast and began working for BFB full-time in 1982. Paul started his career at BFB working as a teller and over the course of ten years worked in every department at the bank. In March of 1992, Paul’s father, Elbert, retired and Paul became CEO and President of BFB. Even though there have been three generations of Hudsons who have served at the helm of the bank, the Hudson family never owned the bank. In fact, Paul describes the bank as “more like a public trust than a family owned bank” (Personal Interview with Paul C. Hudson 2009). All three generations of Hudsons were well connected to the community as they had connections with churches, local politics and social networks within the community.

Despite his hectic schedule, Paul always took the time to talk to me and to help me with
my project—to learn more about BFB—its history and its people. During one of the many times I dropped by his office, I asked him about a program at BFB I had learned about called Second Chance Savings Bank Account. Listening to his explanation of the program and its origins was one of many moments where I was deeply moved by the depth of Paul’s commitment to and understanding of the local community. BFB started the Second Chance Savings program because as Paul explains: “There were just a lot of people who weren’t qualified to open accounts…[W]e check them on what’s called ChexSystems—to find out if they’ve had any problems with other banks. A lot of people weren’t able to open accounts with us. They couldn’t open accounts with anybody. It just didn’t seem fair.” Paul further explains:

It didn’t take a whole lot [to be blacklisted on ChexSystems]—I know that… I know that a lot of people were not getting their accounts opened because they were on ChexSystems…[A] lot of people find themselves on ChexSystems…I know that’s a big issue—particularly in low-income communities, it’s a big issue. (Personal Interview with Paul C. Hudson 2010b)

ChexSystem is a consumer credit reporting firm that nearly all banks use to see if a person has been “blacklisted” by banks for delinquencies that can range from very innocent infractions such as accidentally writing a check with insufficient funds to owing money to a bank to committing fraud. Often those listed are not able to open bank accounts in any bank. As Paul points out, the ability to write checks makes up “most of people’s problems” because without that ability, people have to spend extra money on purchasing money orders and other such services. Second Chance Savings is account that people who have been listed on ChexSystem could use to start re-building their status in the banking system. BFB starts off the client with a savings account, which means that they cannot write checks. However, if the client can handle the savings account, the client can eventually open a checking account. (The down side to this program for BFB is that it requires that the staff spends a lot of time monitoring these accounts.)

Paul’s testament to the seriousness of the problem for low-income communities is backed by research. Currently, over a million low-income families are blacklisted for relatively minor
mistakes and this ongoing problem has contributed to the approximately 10 million families who do not have bank accounts and this number has grown rapidly (Silver-Greenberg 2013). According to the Federal Deposit Insurance Corporation, families without bank accounts increased roughly 10 percent since 2009. Furthermore, some consumer advocates and state authorities argue that databases such as ChexSystems “disproportionately affects lower-income Americans, who tend to live paycheck to paycheck, making them more likely to incur negative marks after relatively minor banking missteps like overdrawn accounts, amassing fees or bouncing checks” (Silver-Greenberg 2013). As the New York Times reports, while some mainstream banks try to be flexible, many still cannot open accounts for those blacklisted because “‘they find their own internal risk management systems mean that their hands are tied,’” explains New York’s commissioner of consumer affairs. According to Jerry DeGriech, a senior policy adviser to the Mayor of Seattle, the problem is that “‘lenders just don’t want to take a risk on these clients.’” Paul elaborates on the origins and rationale of the program:

The Second Chance Savings idea is—we’re not the first bank to consider this and implement—B of A [Bank of America] has a version of it, I’m sure. And Wells Fargo does. The reason why we did it was because it’s—more and more people are getting dings on their financial history from problems with banks. It’s just getting to be—everybody has a bounced check or an overdrawn account they didn’t pay. So it seemed like it was so prevalent that people should be given an opportunity to start over again and maybe sometimes banks did it for the right reasons and sometimes it was a mistake by the banks, it could be all sorts of reasons and maybe they paid off their debt and the bank never took it off. So it just seemed like it’s part of our culture these days and if we were too stringent on that, you know, most of the customers that we see would not qualify for bank accounts. And so, if you make a mistake, how do you get back in the system? That’s true with credit history, that’s true with banking history. How does this culture deal with mistakes people make along the way and what kind of policy of forgiveness are we going to establish? Are we going to say that once you make a mistake, you’re always going to be plagued by—you’re basically going to be second class citizens because if you can’t open a bank account, then you’ve got to use Check Cash. If you use Check Cash, it’s going to cost you more, you can’t save, you can’t build wealth. [And maybe] All that goes back to when you were college, you didn’t think it would be so bad if you did X. So, I mean I think the environment we have today everybody should be entitled to a second chance. It’s just how do you structure it so that people with really bad habits don’t take advantage of the bank. (italics mine)
Paul’s explanation of the importance of the program underscores the concern BFB has for those who may be excluded from opportunities and thus who may be relegated to “second class” citizenship. However, under the bank’s atmosphere of forgiveness, the BFB staff seeks to empower individuals by “structuring” programs and finding ways to open opportunities for people instead of “slamming the door in their faces.” (For more on the concept of “structuring” programs to expand opportunities, see Ch. 6.) Since the BFB staff can see exactly what the infractions were that got the potential client reported to ChexSystems (e.g., staff can see the number of checks that were bounced, how much money has owed to a bank, etc.), they can make sensible judgment on the severity of the infraction and whether or not the bank should take the chance of opening a Second Chance Account for the client. This is an example of the calculated compassion practiced at BFB. Paul’s explanation of the Second Chance program reveals how thoughtful and passionate Paul is about assisting the marginalized in the community and how he carries and conveys a sense of fairness and justice in his logic—something that is not often found to be a priority in the consciousness of profit-driven CEO’s in mainstream institutions.

**Carolyn: Vested Interest and Networking: “By the mass numbers,…we’ll take care of each other.”**

Carolyn is the executive assistant to the President and BFB’s LOR bank culture, as epitomized by Paul C. Hudson, is captured in her description of Paul’s philosophy and role at BFB:

If Paul ran it a different way, if his family ran it a different way, one, Mr. [Elbert] Hudson wouldn’t be doing [legal] pro bono work; two, they wouldn’t live in the area; three, their families wouldn’t live in the area; and [four,] they wouldn’t be giving back [to the community]. But if you think about all the boards Paul is on that are non-profit, all the community organizations that are for L.A., like affordable housing and things like that, it’s very interesting because it’s not like it would be for other companies. Other companies, I would think that their networking would be based on dealing with high networking clients and high end clients and high end events or high end boards. But not Paul, not Broadway, Broadway does more the ‘help the whole community, and the people who will participate will and by the mass numbers, you know, we’ll take care of each
other. We’ll help out. So…I think that we’ll do things for the relationship that I think other companies may not do because one, it’s our community, our employers are from the area, they live in the area, their families are in the area and it’s kind of nice, because there’s a definite give and take that comes with very, very good relationships. (Personal Interview with Carolyn Harris 2007)

For Paul, his father and grandfather, despite their middle class privileges and opportunities in the mainstream, they stayed in their local community because they shared the “we’re all in this boat together” mentality. As recounted in Ch. 3, Paul’s paternal grandfather, H. Claude Hudson, was both a dentist and a lawyer, and although in his lifetime, it was difficult to practice outside the black community due to segregation, Paul’s father, Elbert and Paul himself were both trained at lawyers and they could have chosen to leave SLA. But they did not. Both ended up devoting their careers to running the bank and they continued to stay connected and committed to their community. (Not to mention, Paul’s sister, Karen, still lives in the home located in SLA that their maternal grandparents, Paul R. Williams and his wife, lived in. Furthermore, she also works for BFB.) As one BFB employee said: “[T]hey [Paul and his family] live in the community, they’re from the community, they invest in the community, they deal with agencies and programs in the community, and it’s been 60 years!”

Furthermore, Paul, like his grandfather and father before him, is deeply involved in non-profits, donating his time and energy on many boards. As Carolyn points out, Paul joins not only the elite or national boards, but even small community ones because he cares about what is going on the local level. On these boards, Paul uses his knowledge, experience and his networks. In fact, similar to Paul, many of the BFB employees also serve on community organizations and therefore “they’re more in touch with what is needed” in the community (Personal Interview with Sherri Barnett 2010). Also similar to Paul, the staff often are active in the community for a combination of both practical and ideological reasons: some grew up or live in the neighborhood and therefore belonged to these networks even before they started working for BFB; some have a desire to become involved in community organizations because they believe in “the cause” and/or
others develop networks because of it is a good strategy to gain business and make a profit. (As one BFB staff member puts it: because BFB has a small advertising budget, employees have to “actually get out there and roll up their sleeves and go hunt for the business!”)

Paul and his family’s commitment to and “vested interest” in the local community show the importance of networks in achieving community and racial uplift. It is that commitment and logic of Paul, his family, and the employees of the bank that make up a crucial part of the LOR—and it is what has made BFB so exceptional. Furthermore, the significance of the Hudson family’s residence as being in the SLA area reflects how the BFB community still rely on the old fashioned notion of community banking—the idea that there is credibility in a banker who lives down the street from the bank. This idea of an old fashioned community bank that serves the neighborhood and that the bankers have a close knit network with local organizations, fits into model of credit assessment the bank uses, which sometimes relies more heavily on networking than most mainstream banks, as I will further elaborate on later in the dissertation. (For more, see Ch. 7.)

The significance of BFB’s role in the community is captured by the Director of one of SLA’s most successful charter schools, Unity. At the time of my interview with the Director and various school personnel at Unity in 2007, the student body was approximately 50% Latino, 45% African American and 1% white and 4% in other categories. Unity was among the top ten percent of schools in California with a similar population. As Deloris Washington, the Director of Unity, says:

You know, I just feel that Broadway Federal and Paul, they have an investment in community. It’s not just, just a bank. You know, you’re talking about the future of this community and our children. I mean we all know that we’re not going to live forever, and so I need someone to do it not because they need to give so much money away, not because you have to look good in the community, you have to have the right PR [public relations] image, I would love, I need to work with people who understand what we’re doing and this is our future and this is our future! It’s not just you know, we’ve got to give so much to black folk, so much to Latinos--no these are our children! And it makes a difference
and he [Paul] has the kind of, you know, I mean he was born and raised in L.A., and this is his town and you know, he’s passionate about his work. And he does have a historical understanding of the struggles that we’ve had and honestly, still have, so there’s a big difference. You know, there’s a big difference. That’s how I feel about that. (Personal Interview with Deloris Washington 2007)

Deloris first met Paul when her school was facing a critical money flow issue and Paul had cut through some bureaucratic “red tape” to help her and the school:

I met Paul after the school was opened. It was in 2003…the Edinburgh Foundation had given Unity Foundation $750,000. And I needed to cash that check. I needed access to that money immediately. We were like $500,000 in the red and an angel and gave us that much money to—so that we could have our books balanced, but I needed to cash that check. And so no one’s going to cash it. They have to make sure that it stays in your account for a few days and I so went to Broadway Federal, the main branch, and just demanded that I speak to the president of the bank. So Paul came and he’s always going to be congenial and I remember remarking that I had this money and I needed him to cash it and before I took the money to a white bank, I wanted to see what he could do! And much to my surprise, he said, “Okay!” So that really began a more intimate relationship with Paul. Whenever I needed to talk to him about anything, he’s always been there, which is really surprising because you don’t normally have access to bank presidents like that, so, that’s what really started our relationship.

Deloris discusses the importance of having access to the president of a bank when I asked her why she believed that having a minority-owned bank such as BFB was important to the community. She asserted that banks like BFB were necessary:

Just to do exactly what they do where I can call the bank president because we do have those networks. Because we are part of that group we’ve got to have. And the good thing about living in this time, is that there are African Americans of influence now influence and power and we need them to do exactly what he’s [Paul] is doing. You have to step up, I need a favor—I need it. Because this is hard work and so if he hadn’t said that, I’m not saying that we would have closed, but you have to have partners, you’ve got to have people who say, ‘Yes, I see what you’re doing. I respect what you’re doing. How can I help you?’—you know? I’m going to have a meeting with some politicians later—the same thing—okay, we’ve got a good school now. What can you do to help? We’ve done our job now, what can you do to help? And so, I’m going to talk to Paul because he’s also a man of influence and knows a lot of people and we have to build. I need him to introduce me to people of means and influence who can also write a check for a $1,000, $10,000. So we have the data [on how well the school is doing] now, but it will take someone like him who also has a stake in this community—yes, he’s got a stake in this community because he lives here, you know, who has a stake in the community to say… ‘Okay, this is what I can do.’ So it’s really important to have Paul around. It really, really is important to have
Paul around and Broadway Federal because he can open doors that I don’t know anything about.

She continues on the critical function of having access to networks of power and influence in a marginalized community like SLA:

Just to have that kind of direct contact because he has the knowledge and the wherewithal and the contacts to quote and unquote ‘break’ rules. I mean, other people do it all the time for their clients that they know and typically, we ain’t one of them. You know, we need the breaks too! We need those kinds breaks, we need those kinds of resources that I don’t know, we might be working at Wells Fargo, but I doubt it if we are really the ones that can make those kinds of calls. I know we’re working and we’re visible but when you get that high up, we’re not there—typically, typically. And if we are, they probably wouldn’t look at a small fry like me. So we have to have them [Paul and BFB]. [If not,] We’d be in trouble. We would be in trouble...And that’s why it’s an exciting time to live because we do have [people] in positions of power that we never had.

Finally, Deloris connects her work at the charter school and Paul’s work at BFB as being a legacy of the Civil Rights Movement:

I think [Martin Luther] King [Jr.] figured out at the end that the Civil Rights Movement is also a question of economics—economic parity. I mean until we figure that out, we will always be you know, second class citizens and not only that, I do believe that education is the next big Civil Rights Movement. I mean, when summer schools have $20,000 to educate and we have $6,500, come on, I mean the results are what they are. I understand that you know, I understand—I mean with all this proper education, come on, you can forget it...When I was [working] in Compton and 80% of those kids live in foster care or they live with their grandparents, they ain’t gettin’ out of Compton. They ain’t getting out of Compton, so that’s why the work that we’re doing is important and to work with someone like Paul who’s also doing the same work that we’re doing just at another level—it’s the same thing. It’s a civil rights issue. We have to be able to go to the bank president and you know, churches have to be able to go you know, our books might not be right but he knows that every week in the church you’re gonna get $50,000, $100,000, you know, the way we do things have been unorthodox. We need someone to take a chance on us and say, ‘Yes!’ because they understand. Because they are part of the community too. So, it’s so important.

For Deloris, BFB and people like Paul play vital roles in the community precisely because marginalized communities and people of color often do not benefit from the “breaks” and privileges that white privilege confers. It is up to people who individually have privileges of “whiteness” to find ways, such as networking, to share whatever power or sway they may have
with the community. (This is not to imply that whiteness is absolute and the sole deciding factor of power, or that the privileges of whiteness benefit all whites in the same way. For a more, see Lipsitz (1998, 2011).) As Deloris puts it: BFB is very different from other banks because Paul’s desire to help is not motivated by the prospect of getting good public relations attention, but by the understanding that “these are our children” and that it was up to them—herself and Paul—to help these children. This point is supported by something I found to be very interesting: Paul and the generations of BFB leaders have not systematically kept track of their “good deeds” or the ways in which they reinvest in the community as most corporations do in order to display in the media or in their companies’ marketing material. BFB staff and management have just been “doing” reinvesting every day since they opened in 1946 as part of their daily work.

The Persistence of the Logic of Reinvestment: The Historical Legacy and the Continued Marginalization of the South Los Angeles Community

Lastly, the LOR is premised on how the SLA community and its residents are consistently overlooked and neglected. It is this persistent marginalization that helps keep the LOR alive in the community because this logic reflects the continued need of those who are ignored. An excellent example of how the marginalization of the SLA community feeds a staff member’s desire to “reinvest” is captured by Estella, the loan service consultant who talked about diversity at BFB earlier in the chapter. In a 2008 interview, Estella describes a series of divestment problems that have long plagued the SLA community. When she first began working for BFB, Estella’s top priority was to reconcile the foreclosures or “problem” loans and at that time BFB had approximately 6 or 7 foreclosures a year, which is already considered a small number for an institution of BFB’s size. But her (and the bank’s) goal was to reduce that number to zero. After fourteen years of working at BFB, Estella’s last foreclosure (REO⁶⁰) was in 2002,

⁶⁰Estella is referring to REOF, which stands for “real estate owned through foreclosure” and not REOI “real estate owned held for investment.”
something she is a very proud of. The problems with foreclosure Estella encountered were not with community members foreclosing on their family homes, but with non-community members who were buying multi-family properties, such as apartments, in the SLA area. Estella describes how she has seen BFB and her community “get shortchanged” by people with power from outside the community who have no connection, responsibility or compassion toward community members:

At that time, a lot of the larger institutions were not making loans in the inner city. And Broadway basically was [making loans because]—the properties were in their backyards, so where other banks wouldn’t make the loans, Broadway was there to provide the financing for people to purchase homes and hopefully to help grow the economy—[and] the bank as well. And they [the multi-family loans] did perform for a few years. They were on our books for 10 years and then all of a sudden they [the owners] stopped paying. And basically when you go out and look at the property, you realize why they stopped paying. They had gotten everything out of it…

Estella further explains:

Basically what they [the multi-family property investors] were doing is that they would purchase the property…but they were not putting monies back into the property. They were just taking out, taking out. And the fact that most of the tenants were minority for the greater part, they were Hispanics, you know, some of them had two families in them in a two bedroom apartment and the landlord didn’t care as long as he was getting his rents. And once the department of building and safety would get involved, then it was just one nightmare for the owner after another and they eventually just decided to stop making payments… …You know, they just stopped making payments because they weren’t making enough income to support the payments. And they had gotten the money out of their investment and they would just walk away. And so we would get a receiver and everything and put him in place, collect the rent, try to manage the portfolio and then sell the property. And our losses really weren’t that large, but what happened is that there is no connection between an investor and an investment that is no longer making him money. And so, they have more of a tendency to walk and most of these properties were in South Central L.A. And they basically were draining the property and not putting any money back in the property. And that is one of the reasons why they fell short because they weren’t reinvesting in the properties to maintain them and the tenants didn’t want to pay the rents and they would go down to the building and safety and complain there were problems with the building. The building and safety would sometimes collect rents and put it in an escrow account. The investor, our borrower, didn’t have the money to make the repairs and they just said, ‘Okay, I’ve made enough money.’ And they would just walk away from the property…(Personal Interview with Estella Carr 2007)
Estella said that none of the investors who had done this were from the community and in her opinion, the investors had “no connection” and no regard for the future and the consequences set upon the community. Therefore, the investor exploited the situation by taking what value he could and leaving the community with nothing. To Estella, the lack of vested interest (outside of making a profit) of these investors was a major problem. Estella described two especially appalling cases in which the investors—one “Arab, mid [sic] eastern and the other was white American”—who let their apartment buildings deteriorate while they took out loans on those buildings and then after years of neglecting the buildings, they demanded that Estella take the deed in lieu instead of repaying the bank.

You know, they’ll just give us the property back. And the problem with taking a deed in lieu is that you accept any other liens that are against that property. So if you’re in first position and there’s a second or there [are] judgments or there’s anything else, then you accept all of that. If you go to foreclosure and you’re the first, you wipe all of that out and all you have is your own debt that you have to deal with…And primarily it was usually the same—we had one investor who had 7 properties. He walked away from all 7. We had another gentleman that had—he only had 1 but he was pretty adamant about giving us the deed in lieu and trying to convince me that I had to accept it. I’m like, ‘No.’

The historical and persistent marginalization of the SLA Community serves as the impetus for the continued renewal of community members’ dedication to the LOR. At the heart of this marginalization is the lack of power SLA members have relative to outsiders who sometimes make decisions that negatively affects the community. Estella’s experience with the non-SLA community members who became “slumlords” in SLA shows why African Americans want something of “their own” so that they can be independent of people who may not care about the welfare of the SLA community. Having an institution like BFB gives African Americans some power and control over their decisions and economic resources. Thus, even in instances in which they do not benefit financially, BFB employees nevertheless continue to have the best interest of the community at heart—to the extent that they can survive as a for-profit organization. As we
will see later in the dissertation, BFB employees find creative ways to engage in community building through the power of finance. It is experiences like these that motivate the staff like Estella to continue the LOR so that the people of SLA will have financial opportunities like most of mainstream America does.

IV. Conclusion

The LOR bank culture at BFB is rooted in black intellectual history through the racial uplift ideology and in ethnic banking history’s “pooling together” of resources theme, which reflects the communal-oriented part of banking history rather than the monopolistic, capitalist aspects of it. The LOR at BFB is based on an understanding of race that is not necessarily defined by skin color, but by power. That is, the management and staff at BFB recognized that race does not function only through skin color, but on power—the ability to confer privilege to one group over another—and that this power does not necessarily have to rest on the color of one’s skin. Specifically, I argue that the logic that has existed in various forms through the decades at BFB is different from “racial uplift” because it has a particular definition of “blackness” and “whiteness” and because it focuses on “giving back” through a financial organization. Furthermore, because BFB is a bank, it is also located in the particular history of financial activism in the history of banks. Therefore, it also has additional ties to the community activism and the rationale and history that went into creating movements such as the one in the 19th century that created savings and loans organizations and the one that spurred the urban activism in the 20th century that led to the Community Reinvestment Act. Finally, the LOR should be understood as a response to the historic and continued marginalization of a local community. This chapter has also shown the effects of employing the LOR at the bank. Through the philosophy and practices as represented by Paul C. Hudson, the President and CEO of the bank, I show how the culture of the bank can be captured through the themes of listening, second chances, vested interest, and networking. I argue that the main consequence of the LOR at the
bank is that it allows the employees to work toward one of the main goals of the founders: to provide opportunities and share power and privilege with those who are marginalized. In the chapters to follow, I will elaborate on how the LOR is used in training BFB employees and how it is embodied in agents to facilitate decision-making at the bank.

I wasn’t looking for a bank with a heart [like Broadway Federal Bank], but if I were going to go into banking, I didn’t want it to just be about money… And I’m a capitalist and an entrepreneur and I want to make a buck, but that’s almost secondary, I want to feel like I’m doing something decent while I’m at it—for the world. (italics mine)

Eric, Chief Loan Officer

I. Introduction

In the previous chapter, Ch. 4’s logic of reinvestment (LOR), I discussed the intellectual and historical roots of pragmatism and social justice found in the LOR. In this chapter, I focus on how the Broadway Federal Bank (BFB) actors understand the meaning of the LOR and how it is embodied and reproduced in their everyday lives at the bank by looking at how the BFB management trains and mentors the staff. In other words, this chapter explores not only what the LOR means to the staff and management of BFB, but it shows how the LOR “happens.” The LOR culture enables BFB actors to connect their desires to “give back” with actually being able to reinvest through the bank. Thus, this chapter shows how the BFB actors learn how to rely on the LOR through their training; how they implement the culture through, for example, how they relate to their customers; and how they receive ongoing mentoring and training to ensure the maintenance of the LOR culture through activities such as the weekly relationship management meetings. As I will elaborate in Ch. 7, all of these practices help to reduce uncertainty in transactions by increasing the reliability of data gathered from social ties.

The corporate LOR culture is captured by the concepts of “family,” “home” and mentoring--concepts that both the management and staff embrace—because they reflect the nature, function and reproduction of the culture at BFB. I argue that these concepts are important aspects of the LOR because they often reflect the continued feelings of alienation and marginalization racial minorities feel working in mainstream organizations and that these
concepts are important in the reproduction of the LOR because they inculcate staff members with feelings of solidarity and help teach them how to extend trust and compassion to their clients—which in turn, facilitate the bank’s dual mission of profit and community. On the one hand, the creation and maintenance of the “family” concept is an important strategy for the management as they use it to maintain LOR as company policy, employee orientation and marketing. On the other hand, the staff uses the concept of “family” to describe the atmosphere of the workplace environment that they come into and also help re-create with their own longings for a warm and “safe” workplace, a workplace where they can put their guard down and be “at home” with their racial identity while pursuing their middle class careers.

The LOR culture is reproduced in two main ways: the staff brings their own personal desires to “give back” to the community when they go to work for BFB and the management provides training and mentoring that fosters the LOR culture at the bank. Mentoring is an explicit way in which the management inculcates their staff with expertise two ways: 1) in the “objective” measurements the mainstream financial industry uses to measure creditworthiness and 2) in the activist stance that is necessary in keeping the welfare of the community a priority. In other words, mentoring is an important way in which to train BFB staff to use “calculated compassion” that the staff uses in daily decisions to promote the dual goals of profit and community. The mentoring and the feelings of “family” and “home” all help to reproduce the LOR by cultivating solidarity, commitment and loyalty to the bank. But it is in mentoring where a crucial form of inculcation happens: the training of employees on how to trust and how to judge; so that there can be a reliable chain of trust from the client to the executives. This is significant because as we shall see in the following chapters, this is how the LOR helps facilitate the decisions that make achieving the dual goals of profit and community possible.

At BFB, their “community” is built upon people who are excluded; BFB does not assume that black identity means anything in particular, but recognizes “blackness” as those who are
marginalized. This definition of community fits nicely with the culture that the bank is engaged. As will be elaborated on later in the dissertation, culture does not automatically mean race, but culture refers to the “street corner” sense of shared experiences. This chapter shows how the employees’ shared experiences shape the bank culture: they help build a community through their ties with others (i.e., through their networks).

II. Manifestation of the Logic of Reinvestment as Family: Broadway Federal Bank as a Haven

As an organization, BFB acts and feels like a “family” to the management and staff. In analyzing my respondents’ uses of “family” at BFB, I show how the shared meanings of these concepts re/produce tradition and culture at the bank. The theme of “family” in the study of BFB is important because the staff and the clients identified it as a special characteristic of the organization. It is also significant because it is the “family” atmosphere that reinforces the LOR, which allows the people at BFB to accomplish their dual missions of profit and community. The “family” atmosphere of the bank is in part good business strategy because the staff and the clients appreciate the “personal touch” of the bank, but the “family” environment is also a response to the continued marginalization and alienation African Americans still experience in mainstream financial organizations. The feelings of family, being “personable,” and having the “personal touch” is important to both the staff and the clients because they facilitate the respect and trust needed in building social relationships. The training of staff to be personable and respectful encourages them to take their clients seriously and to take the time to listen to their stories. This family feeling is captured by Keisha, a loan processor who has worked at BFB for close to ten years:

We are such a big family at Broadway. We are family here…You know, it’s not like every day coming to work…It’s like I’m here with my sisters and brothers so it’s, it’s great knowing that. You can come to work and have fun, as well as learn and you are paid at the same time…I don’t know whether it’s their hiring system or what, they just know who to hire, you know…I mean of course, everybody
doesn’t get along initially…[but we] build and grow together, learn about each other, you know, it’s always going to be conflict…Because some people have strong personalities and some people don’t…but it’s definitely different than working any other place I’ve been at and not feeling welcome. You feel welcome when you walk in the door. You feel such a warm feeling when you come in here. Everybody is so loving.

Demetria, a loan officer, describes how the staff and the customers feel like “family” at the bank.

She compares her experience working at a mainstream bank to her experience at BFB:

We’re more of a family here. There [in the mainstream banks I previously worked], everything was more corporate, it was just corporate—very corporate. Here, it’s also corporate but it’s also a family and you have to be a family and a team to make things work. It’s more personable [here], you know, and sometimes that’s what people need is something just more personable than just to walk in and see stiff people all over the place…That’s an absolute plus you know, when you walk in—that makes you want to come back or you bring in someone with you and someone in the teller line calls your name and it’s like, ‘Whoa, they know you here?’ I go to my bank and they don’t say nothin’ to me! And that’s a big plus—the personal touch.

She goes on to describe how that “personal touch” also manifests among the staff:

One thing that I know about this particular branch...—they’re more personable. I mean, that’s about all I can say because at the other banks people don’t walk in every morning and they give you a hug—‘Hey, how are you doin’?’ Whereas here, there’s more of a personal thing. Because I remember [when I first started working here] everybody started huggin’ and I was like, ‘Whoa a whoa!’

Demetria explains why she thinks the bank is more family-like:

I think because it’s small, and I think because it’s the community, and I think that it’s just that—I wouldn’t say that it’s your neighborhood bar, but you know...—like with Norm in Cheers, he walks into the door: ‘Hey, Norm!!’ And here, you know, it’s like your neighborhood bank, you know like the one at 45th and Broadway—everybody knew everybody—the security guard—you could just walk in. You didn’t have a problem...When you walk into...other banks, where you’ve got your thick ply plexi glass window, you know, in front of you. Whereas here, you can reach over and shake hands, and they come out from behind and give you a hug and say, ‘Hey, I haven’t seen you in a while.’ Or if you haven’t seen them say, ‘Where’ve you been?’ And then they’ll have a conversation and stuff with you...[Y]ou walk in here, you see there is no glass up and I can shake the teller’s hand and I don’t have to slip things underneath anything. It makes a lot of difference when you’re more personable. And I think that’s what they’re really trying to keep and I don’t know if it has anything to do with ‘ethnic-ty[ethnicity]?! But I think they’re just trying to keep that personal touch because a lot of people like that. It’s like I said, you walk into a bank and see the person forever and they just don’t acknowledge you.
For Demetria, the family feeling at the bank comes from a combination of factors: the personalized attention, the history, the local community and most of all the respect and care that people feel because the employees are willing to listen to each other and their clients: “You know, they feel like they are at ‘home.’ They don’t feel like they’re being neglected. They don’t feel like they are just cast to the side, that someone’s actually willing to help.” The feeling of being cast aside and neglected is a common theme that I found when talking to both employees and clients of BFB. Clients of BFB felt that mainstream banks just did not have their best interest at heart and to add insult to injury, many African Americans felt they were treated differently from others because they were being stereotyped negatively. The management and staff at BFB can empathize with the clients’ feelings of being “cast to the side” in mainstream organizations and therefore strive to treat their clients with the utmost respect.

Brenda, a branch manager, explains, “I want…our clients here treated like clients will be treated if they were at Beverly Hills” and because of Brenda’s experience as customer service supervisor in large corporate financial institutions in areas such as Beverly Hills, she was the perfect person to be in charge of the high profile clients coming into BFB’s corporate branch. A BFB executive believed that BFB customers deserved the same treatment that Brenda offered her “special customers” while she worked in Beverly Hills, such as Hollywood celebrities, sports agents and athletes who needed to be treated “really delicately.” Therefore, Brenda strives to create a “really warm” atmosphere for the customers at the BFB because she believes it is important for the staff to treat the customers:

With that respect, ok, making him feel like he, he is walking into a professional establishment and not like, you know, come in any kind of way and talk to him and treat him any kind of way, but just give them that extra service…You know, don’t just look at him or act like you don’t see him. Acknowledge him, ‘how are you today?’ you know, ‘thank you for coming in,’ ‘what can I do for you,’ um, after you finish with the transaction, [say] …’have you accomplished everything you come to the bank? You know, because sometimes just doing, you know, the little extra.
Brenda humbly explains, “I don’t know how to do anything else, how to bring in a certain account, anything. One thing that I do know is customer service… [I] know how to make my customers you know feel appreciated. I know how to do it. That is something I do know how to do.” “Customer service” at BFB reflects how the LOR is put into practice. Customer service is how professional activism at the bank is played out because encoded in the concept of “customer service” are the dual goals of activism and profit. Everyone at the bank knows how to “do” customer service—which includes building networks as part of community orientation. This “customer service” has to be trained into people, as we will see later in the chapter. In fact, it is the reproduction of the LOR through this training that has helped BFB survive over 60 years of service.

The sense of comfort, mutual respect and history at the bank makes customers extremely loyal to the bank. As Lorraine explains:

I think for a lot of people it’s a family thing to do [to bank with BFB]. Like if the grandparents got started and the parents got started. In another sense it is knowing that you are going to be heard, you’re not just another number. Everybody is special and part of our family brand is building customers, one legacy at a time. We got a lot of great stories from a lot of wonderful people who’ve been out there trying to do these phenomenal things and they went to mainstream banks and were laughed at and sent severely packing. And then Broadway has always been there, Broadway has always been able to work with you and be a lot more creative.

Thus, the loyalty from the customers is partly rooted in the respect and acknowledgment the BFB staff gives to the customers. Therefore, part of the family feeling that is at BFB is produced by the clients and the larger social forces shaping race relations in the U.S. That is, African Americans have historically and currently are either discriminated against or disrespected in mainstream banks and therefore, they turn (or return) to BFB. When the BFB staff takes the time to listen to them and assist them in their financial needs (e.g., by providing financial counseling, etc.), a strong bond and sense of community, respect and pride is fostered in the BFB and larger South Los Angeles (SLA) community. Customers are tired of feeling marginalized, negatively
stereotyped, and powerless. They come to BFB where they are free of those feelings and they
temporarily do not have to deal with the burden of what Du Bois calls “double consciousness”—
thereby making BFB a psychological haven even if the customer may not be able to get the loan
he or she may have wanted. At least they were treated with respect and someone took the time to
listen to their stories and tried to work with them to find a solution to their problems.

For the employees of BFB, the bank also serves as a haven because many of them have
felt that they were either hyper-visible “tokens” or invisible and overlooked for promotion by
their supervisors. Thus, many of the staff at BFB appreciated the comfort and acceptance they
found at BFB. These negative experiences of being marginalized at mainstream institutions make
it easy to understand why the BFB staff would choose to work in what Nancy Abelmann calls
their “comfort zone.” Just as the Korean American students Abelmann studies in The Intimate
University (2009) “gravitate” toward their “own” in the university setting, many African
American employees are drawn to the cultural familiarity of the bank because people at the bank
understand the subtle alienation and marginalization that is often so difficult to explain to those
who do not experience it.

Sometimes this subtle feeling of isolation is found in something as mundane as
understanding a group’s culture regarding hairstyle. Teri, the Loan Service Manager, worked at a
mainstream bank before coming to work for BFB. She describes how her coworkers would not
recognize her because she would change her hairstyle: “I used to change my hairdo almost every
week, every month. And I would come in, and they would be like, ‘We have a new employee?’
Yeah, because there would be a change and they [her coworkers] wouldn’t recognize me.”
But at BFB, there is a subtle feeling of comfort because she did not have to explain anything
about her hair—in fact, others at BFB also often had their hair styled differently. Similarly,
Roger, the IT Manager, said he loved working at BFB because he could “talk black” to his
coworkers. Being able to “code-switch” between Standard English and African American
Vernacular English (AAVE) makes Roger feel like he is at “home” because AAVE is used in less formal settings. (Roger adds that he never uses AAVE when picking up a phone call if he sees that the call is coming from outside the bank—something he can determine by looking at the caller ID box on his phone—because he knows that he will be judged negatively by “outsiders.”)

And sometimes this feeling of comfort of being at “home” with family comes from the implicit belief that racial discrimination against people of color still plagues American society. Therefore, due to this rejection from the mainstream, those who are marginalized automatically feel a sense of solidarity. Consequently, this camaraderie facilitates the cooperation and the “family” feeling at the bank. William describes these dynamics well when he explains why he enjoys working at BFB so much:

I love the people I work with. Well, I’ve never really worked somewhere everyone is so tight and friendly. Everyone communicates with each other and everyone’s in a good mood. It’s a loose atmosphere, which a lot people wouldn’t think because you’re in a corporate office. It’s a loose atmosphere where you can just be yourself and of course, be professional at the same time, but I think that’s what I like most about it is that you can just come in and just be the person who you are pretty much. And everyone’s different. And everybody shows their difference—their different personalities here, so that’s what I love about it.

[Interviewer:] So why do you think that is—why do you think people are more relaxed here?

Um, honestly, you know what? I don’t know. I think because it’s more of a—I hope this don’t sound funny, but—more of a like a minority bank. Everyone’s here. Even with Hispanics, even with Asian—....I think that becomes a factor because most minorities can relate to each other at some point, you know. And to have something like that, to have a branch full of minorities, it sort a feels like we have our own, like this is our thing that we have going and we’ve gotta make it successful. And I think that everybody’s working together and doing it and at the same time having a good time doing it.

BFB feels like a “family” because there is a strong spirit of cooperation and respect among the employees and the community members. This feeling of solidarity is rooted in the cultural comfort and the acknowledgement that racism—in its subtle and sometimes not so subtle forms—impact people’s daily lives and that—that “most minorities can relate to each other at some
point.” The customers of BFB often feel looked down upon, mistreated, neglected and disrespected in mainstream financial institutions, but at BFB they feel the opposite and feel assured that they will not be taken advantage of. This assurance comes from BFB’s reputation in the community and from the interactions the customers have with the staff. The numerous reports of how major financial institutions such as CountryWide targeted blacks and Latinos in subprime mortgage loans (Savage 2011) backs up the experiences of neglect some people of color have had with mainstream financial institutions. On the contrary, BFB had zero subprime loan mortgages.

“Family,” Racial Uplift and the Reinforcement of the Logic of Reinvestment’s Commitment on Investing in the Community

Describing a community organization such as BFB as having a family atmosphere may not be unusual or unique. Many small businesses share this characteristic. But what is special about the “family” atmosphere is that it is coupled with the notion of racial uplift—the idea of improving the lives of people in one’s racial group. Racial uplift has been a central component in the bank’s mission: the founders were responding specifically to the white mainstream society’s exclusion of African Americans and other minorities from financial opportunities and services in the SLA area. And although in the post-Civil Rights Movement era, African Americans are now legally protected from being prohibited from becoming clients or employees at mainstream institutions, they continue to be underserved and/or targeted for detrimental programs such as subprime mortgages (For more, see Ch. 1). Therefore, many feel marginalized when seeking services or employment. This continued feeling of exclusion has reinforced the goal of “racial uplifting.” (However, the type of racial uplift at BFB is different from typical notions of the term because the logic of reinvestment at the bank also focuses on helping all those who are marginalized, regardless of race—even though there is often a focus on African Americans because of the particular history of the bank and the fact that African Americans are among the most marginalized even among people of color in the SLA community.) Furthermore, the notions
of racial uplift and the family go hand-in-hand because they are both rooted in the idea of kinship. That is, both concepts of racial uplifting and family share the idea that “we are all in it together.” Thus, seeing the bank as a “family” makes it easier for the staff members to work toward the dual goals of the bank. The social construct of the “family” helps reproduce the LOR at the bank because the “family” atmosphere helps keep the mission of assisting marginalized community members a priority in a financial system that unrelentingly pushes the profit margin. That is, when the staff member sees the bank and the community as a “family,” it is easier to remember to take care of the clients and each other and not just only focus on profits.

One significant way in which the staff’s feeling of “family” and their logic of reinvestment is through the mentoring at the bank, as I will discuss later in the chapter. However, the bank is not the only place where the staff’s logics are cultivated. The staff also brings to the bank a wealth of life experiences that has shaped their logics. In the following section, I discuss the staff’s professional and personal reasons for choosing to work for BFB and how their hopes and desires to “come home” have contributed to the “family” construct and the reproduction of the LOR as a bank culture. Most of the stories of home point to the social conditions that lead black professionals to feel marginalized and alienated not only in mainstream financial organizations, but in the mainstream society in general. Although in some cases, the alienation is rooted in the cut-throat tactics of corporate capitalism and not in racial issues per se, what brings the employees together is their shared, collective desire to reinvest to a community that has historically been neglected. The “home” concept is important because it supports the “family” feeling and help to produce the LOR that the staff uses to achieve the dual goals of profit and community. In the following stories of why they chose to work for BFB, the staff uses notions of “coming home” to capture why their individual and personal missions to give back to the community coincided so nicely with BFB’s mission.

III. “Coming Home” Where Profits are “Almost Secondary”: The Alignment of Personal
and Professional Goals with Broadway Federal Bank’s Mission

BFB’s logic of reinvestment bank culture prioritizes reinvestment to marginalized populations. This is embedded in the mission of BFB and is an important part of what makes BFB feel like “home” and a “family” to many of their staff because BFB’s mission to provide opportunities to the underserved aligns with the personal missions that the staff brings with them. This alignment is important because it is a crucial way in which the LOR is reproduced at BFB because the personal missions of the staff to serve the community fuels the bank’s commitment to the community and supplements the training and maintenance of the LOR the BFB management attempts to instill in their employees. People feel like a “family” because they feel cared for, acknowledge and appreciated. They feel acknowledged instead of invisible as they often feel in mainstream organizations. One important way that the atmosphere at BFB feels like “family” is because it is like a “home” for staff in figurative and literal ways. Working at BFB is like being at or returning “home” in a literal sense because for many of the professionals, BFB is the first institution that is offering a good middle class job located in SLA, the community that many of the staff has either grew up in and/or currently reside. Figuratively, BFB feels like “home” because it is a “racial refuge”—it is the only time staff has seen that a majority of the professionals are black so BFB is a place where the staff member does not feel like a minority in numbers. Furthermore, the employees do not feel like a minority in spirit—that feel like they are understood at the bank—that they are not the only ones who experience things such as double consciousness.

At BFB, staff members feel a sense of comfort just knowing that they do not have to explain their feelings of being the racialized “other” working in mainstream organizations. This phenomenon of straddling two different cultures and feeling “two-ness” is what DuBois calls the “double consciousness”: “this sense of always looking at one’s self through the eyes of others, of measuring one’s soul by the tape of a world that looks on in amused contempt and pity.” It is a
consciousness that racial minorities carry with them, but is often not acknowledged or understood by those who are part of the mainstream and do not have such consciousness. Double consciousness can be both a burden and a gift. It is a burden when the minority with the double consciousness is the only person who has it; it is a gift in an environment such as at BFB where there are others who understand and can relate to this consciousness. However, not everyone at BFB is African American and therefore do not experience the effects of these feelings of “twoness.” Hence, sometimes the alienation that some of the employees feel is not from race, but from the cut-throat nature of corporate capitalism. Therefore, another significant reason why BFB feels like “family” and “home” is because many of the employees come to work for BFB because their personal missions of reinvesting in the marginalized community of SLA helps the staff and management feel like a team that shares similar values and missions.

Betty: “I think it’s time for me to help the people in my community.”

Before Betty Clemmons started her decades-long career at BFB, she already had a very successful career at Lytton Savings in the 1950s. Lytton Savings was a mainstream institution owned by Bart Lytton, a wealthy man who had strong ties to the Democratic Party and had worked hard to get John F. Kennedy elected as President. At Lytton Savings, she attended credit college while working—receiving training and credits equivalent to a college degree. Eventually, she was even promoted to be a manager. She proudly recalls being “the only black person with a key to a bank on Wilshire Boulevard,” a thriving business center. But Betty decided to leave Lytton Savings after she became involved with a local chapter of the Southern Christian Leadership Conference (SCLC) called Operation Breadbasket in SLA at the height of the Civil Rights Movement. Betty left Lytton Savings, explaining to colleagues, “I think it’s time for me to help the people in my community with what I’ve learned at Lytton Savings.”

She began working for another black bank in SLA, but soon realized that it was not a place where she could help extend opportunities to the marginalized in the community: “When I
went over there [to the other black bank in SLA] I noticed there even was some,...um I don’t know how to explain it, but what I saw at [this bank] was not what the community looked like. Um, they were all African American employees and staff members but they were what we used to call high yellow, like myself, there were no brown skin employees…” For Betty, the fact that the bank only employed fair skinned African Americans was one of many indications that the bank was not reaching out to working class African Americans, who had even fewer opportunities than middle class blacks. So only after a few months, Betty left the bank to work for BFB, a bank where she noticed that African Americans of all shades worked and even had Latino employees. Furthermore, BFB had branches in the black working class areas of SLA, whereas the other black bank had branches that were concentrated in black middle class neighborhoods. When she started working for BFB, she felt like she was “home.”

Brenda: “When it comes to the black race, people always tend to see the negative side.”

Part of what Du Bois captures in his concept of double consciousness is the burden of negative racial stereotypes prevalent in US society that racial minorities have to carry with them on a daily basis in mainstream society. Therefore, some people like Brenda, BFB bank branch manager, also often find themselves in a position where they are trying to combat such negative stereotypes. Brenda is a lifelong resident of Compton. She began her career in banking almost thirty years ago when she enrolled in a training program in banking while still in high school. Since then she has worked for a number of mainstream banks outside the SLA area. She left a large mainstream bank called Comerica to work for BFB in 2005.

At Comerica, she worked as a financial service person for the entertainment division and business management department for five years. In addition to providing financial services to clients, Brenda was expected to meet sales goals of over a million dollars. Admittedly, she wanted to leave Comerica because she wanted fewer responsibilities and less stress. But she decided to work for BFB specifically because similar to many of other BFB employees, Brenda
found BFB to be an exciting and comfortable place to work and a place where she can also contribute positively to her community. In particular, she also wanted to combat the negative racial stereotypes and contribute to the SLA community. While still working at Comerica, Brenda used a headhunter to look for possible work opportunities. BFB was among the list of potential employers the headhunter compiled for her. Brenda remembers “how good it felt when she walked into BFB for her interview. After the interview, Brenda knew she wanted to work there: “After the interview I was so impressed. I want it. That’s where I want to go--where I want to go.” Within a week, BFB had hired her as the customer service supervisor. She was drawn to BFB because working at BFB would give her an opportunity to work with other black professionals. Brenda explains:

What drew me to Broadway and what I liked about Broadway…is that a lot of times when it comes to the black race, people always tend to see the negative side, in fact they always find [the] negative,…they always find [the] negative, you know it’s like those people--always negative. But when I came to Broadway and I see the positive... what the positive [is like], I see professional people and not that I hadn’t seen professional people before. But to be among and work within a group because the most of times all my other jobs or my banking experience--it wasn’t in a minority-like type of institute, you know,… but to come here and to see the professionalism. I love it.

For Brenda, it was exciting and inspiring to see so many black professionals in the same workplace and to finally be in a situation where she was no longer the minority. Furthermore, she was happy to contribute in an organization that was bringing out the “positive” side of being black. Another aspect of Brenda’s logic of reinvestment is that working for BFB would allow her to reconnect and reinvest in her geographic community as well because she has always shopped and ran errands outside the South Los Angeles and Compton areas. Before working for BFB, Brenda rarely patronized the businesses where she lived because she was accustomed to leaving her home community to run errands because of the negative images associated with Compton. But at BFB, she would not have to do so. Brenda explains:

I’ve always been like this. Everything that I would do--would be because I grew up
in the city...[of Compton]. So everything that I would do, I would always go out of the area. If it was for work--I’m in Torrance, or I’m in Beverly Hills--I am away. Okay. It’s a very comfortable way of not being in the city. When it would come to, right, for example going to the grocery store I would drive way out [of the city]. If it came to just going shopping I could go way out because I didn’t want to be in the ‘negative’--what was considered as being the negative was [being] in the city...So I love it, when I came to Broadway you know, even though we have [bank] branches that are in the inner city but knowing the people in the different ones that are part of Broadway made me want to be a part of what was going on with Broadway...

Similar to what Betty felt almost four decades earlier during the Civil Rights Movement, Brenda wanted to “stay” in her community and actually “live” there—by working and shopping there instead of just going home to sleep at night. Brenda’s form of reinvestment follows the black business ethos: by patronizing the businesses in her community, she is contributing to the local economy and the SLA community in general.

Finally, Brenda wanted to work for BFB because she believes in its mission and wants to help the bank realize it:

They [the founders] were a group of civil minded individuals that said, ‘Okay, let’s put something together, you know for the community—like...giving home loans. Let’s do what we need to do to help them [African Americans] accomplish, help them see the American dream. That’s how I look at it and they did that and after fifty years Broadway is still there...And then the thing is that we have customers that been with the bank almost since 1947. I mean you got a customer …that’s eighty years old. Okay? And they are sitting and they are telling you, ‘You know [how] I remember this [part of BFB’s history]?’ Or ‘Yes, yes I know old man Hudson,’ and it’s like, not Paul [Paul C. Hudson, the current CEO]. You know it’s his grandfather [H. Claude Hudson]. You know and I’m thinking to myself like, ‘Wow.’ You know, so, the, the thing is just--just the years of service. Years of service and being in a bank that was there when nobody else was, or nobody else was willing on taking the chance, to you know to help service, to help service. So this is, is exciting. I am, I am uh earnestly excited about, you know what’s going on, you know, with Broadway. I’m excited to see what 2008 is going to bring but you know I’m more willing on getting behind whoever I need to make this happen, to make this happen.

Brenda went to work for BFB for several reasons. She was attracted to the fact that BFB was a successful black organization that was dedicated in assisting the underprivileged in the black community. Also, she wanted the opportunity to work in an organization that had not just one or
a few, but many black professionals. Moreover, she wanted to “give back” to her community by patronizing local stores and services. Furthermore, for Brenda, building a positive image of black professionals is also another way to reinvest in a community where she felt it needed strong role models to combat negative stereotypes of African Americans. At BFB, she was excited to work with other talented and committed black professionals who valued the SLA community. In this context, the people at BFB feel like “family” and BFB as an institution feels like “home.”

Estella: “Broadway is my home and it’ll always be my home.”

When I interviewed Estella Carr, she had just flown back to Los Angeles from her retirement home in Arizona because she was working at BFB as a consultant even though she had retired from BFB months prior. When I asked her why she flew back to Los Angeles every few weeks to work at BFB, she answered: “Because Broadway is my home and it’ll always be my home. I’m very passionate when it comes to the success of Broadway Federal Bank. And primarily because it wasn’t coming to a job, it was like being with family.”

Estella has felt BFB was her “home” and her “family” since her first day on the job—despite the difficulties she initially had getting her staff to accept her. She was the “new kid on the block” in the Loan Service department. Not only did she come in as the manager, but most of her staff were older than she and had worked there for many years before she was hired. She explains, “But senior management and the Hudson family [and others]…embraced me. I felt like family. I was part of the Broadway family. I wasn’t just a worker, you know. They asked about the kids. Paul even came to one of my son’s football games. They just, they truly, truly at that point, made you feel like you were at home—like it wasn’t just a job. People genuinely, in my opinion, cared about each other.”

Estella was recruited by former President and Chairman of the Board Elbert Hudson after they met when she was working for The Resolution Trust Corporation to prepare the sale of Enterprise Bank, a black bank in the City of Compton. At the time, Estella practically managed
the institution on her own and worked hard with delinquent customers to bring their loans current. After a year, Enterprise had no delinquencies and was the only savings and loan that was sold by the RTC that year without a loss. Estella explains, “And when I was talking to Elbert about the experience [I had at Enterprise Bank] and how great it made me feel to help those families save their homes, and he looked at me and he says, ‘Wow, you’re really passionate about this.’ And I said, ‘Yes. That’s what Loan Service is—the objective is never to foreclose. The objective is to keep the families in their homes.” Impressed with both her passion and talent to keep families in their homes, Elbert and the senior management at BFB offered Estella a job. Estella explains, “When I came in [to BFB], my goal was to sit down and talk to our customers, the ones that were having financial problems and to reeducate them and—because a lot of customers would tell me, well, my credit is already bad I can’t clean up my credit.” She explains her decision to accept the position at BFB: “It [working at that Enterprise] was the first time that I had opportunity to work with blacks on a one-on-one in a professional manner in so far in banking, and for helping in a financial situation. Enterprise gave me that little taste that I needed to say, ‘I want to bring those same talents here. And help Broadway and other minorities that are having some financial problems and give them the tools to let them understand that they can make a difference.’”

Throughout the years she worked as Loan Service manager, Estella has helped educate customers on how to fix their credit and she has gone out of her way to ensure that the bank did not start foreclosure proceedings for the wrong reasons. For example, Estella would drive out to her clients’ homes:

I was outside another customer’s house because it was a senior citizen and she had never been late and it was time to start foreclosure and we couldn’t get in contact with her so I physically got up and drove out to the condo complex. But I didn’t know it was a gated community. So I’m walking around, walking around and one of the customers that I know, said, ‘Miss Carr, whatcha’ doing out here?’ I says, ‘One of the customers, she’s a senior citizen—I can’t get in contact with her and she’s never been late and now she’s late.’ She says, ‘Oh, do you know where her unit is?’ I said, ‘Yes.’ ‘Oh, I’ll let you in.’ So she let me in and the lady had been in the hospital and she had just retired three months before and she
went into the hospital with a heart attack. And she says, ‘I don’t think I know you.’ I says, ‘No, but I know you’ve always been on time. You’ve always made your payments.’ And she says, ‘Well, can I give you a check now?’ I says, ‘If you’re comfortable with giving me a check, I’ll take it. But if not, now that I know what’s wrong, you can mail it in or whatever.’ She says, ‘No, just take my check now.’

Estella further explains:

Rather than to start foreclosure, I would drive to their homes—to give them a card, to try knock on their door, or see what’s going on. I feel that you know, when you have a good customer that you built a relationship because they’ve always been on time, and then all of sudden they’re late, they’re two months late. You owe that as a loan service—and that’s why I call it servicing—to get up behind your desk, drive over, knock on their door and try find out what’s happening. Now, if it’s a chronic customer, you know that’s just their pattern. But with a customer that—it’s not part of their norm, they deserve that. To get from behind the desk and do a one-on-one—be a person. And that’s how I deal with my bridges with my customers, is NOT just over the phone…

Estella’s efforts to educate and reach out to the community involves taking the time to listen to the issues that the clients may have in making their payments and the personal reward she feels from helping her clients provides the motivation to continue working hard at her job:

But it’s taking the time to understand why they are late. What’s going on. And it’s not just a matter of collecting payment and that’s why I felt the job was so rewarding because I felt like I helped people you know—helped them stay in their homes, helped them understand financing, helped them to understand their credit report and how to clean it up and that’s why I feel like Broadway and the people, the community we serve is a family. It’s helping each other. I would tell customers about financial statements that we have to get on the multifamily is that by you sending us these financials, it helps us to provide more loans to the community. By you not sending us it, we have to set aside extra capital, which means we won’t have the money to loan for the next house. But I always put it to: where there’s a giving, there’s a taking and there’s a sharing.

She describes her job at BFB as a “passion”:

It’s a passion. I used to tell people--when I met my husband, [I told him]...—it’s not a job for me, you know, I don’t look at it as a job. I love what I do. I look forward to it. Whether it was coming in on Saturdays, or coming in on Sundays. I can remember going taking my kids to baseball and then running back to work. For me, it was the end result—it was much more important than anything they could pay me. It was just a matter of—this is my baby, my home. And I just wanted to make sure that was as it perfect as it could be—as I can make it. And when we got down to the zero [foreclosures], I was like I’ve done it! But Paul [Hudson] was very supportive, [and] Mr. [Elbert] Hudson, I felt like I was in the
Broadway Family and it made me want to strive for more perfection because not only was I helping Broadway, I was helping the customers.

As a recurring theme when I spoke to the staff, feeling like BFB was like “home” had both literal and figurative meanings. They were referring to the fact that by working at BFB they were working in the SLA community, a community where they either grew up and/or were currently residing. They also felt like they were at “home” was because BFB was either the only place where the staff member worked that had a majority of black professionals or as in the case of Estella, before she came to BFB, she worked at a black bank where there were a majority of black professionals, but the mission of the bank was not focused on reinvesting in the community. When Estella began working at Enterprise, she said she felt like she had returned “home” because she returned to her hometown of Compton, but she calls BFB “family” because that is where reinvestment in the community takes place. It is this passion to help the community—through loan servicing—is how Estella adds to the family atmosphere. This family feeling is reinforced by the support that the management shows the staff in their professional goals and in their personal lives by for example, showing up to Estella’s son’s football game. In sum, the alignment of the staff’s personal missions to reinvest with the bank’s and the comfort they felt working in a predominantly African American organization in SLA were all significant reasons why BFB felt like home.

Adwin: “What I was looking for all these years.”

For Adwin, BFB feels like “home” because he felt he could make great strides in helping “his own people” with his professional skills and because he is respected and cared for. Adwin feels his job at BFB is a perfect fit for him because he has always wanted to help the less fortunate and at BFB he can do so effectively with his financial talents and skills. He enjoys working at a place where he feels like he is “family” and he is eager to share his strengths and become a leader in his community by helping to build a strong financial institution dedicated to
helping the SLA community.

An important reason why Adwin came to work for BFB is exactly because his logic fit the bank’s mission precisely. Adwin describes the “pitch” one of the managers at BFB gave him when BFB was trying to recruit him. Adwin said that one of the reasons why he decided to work for BFB was because he wanted to “have a chance to be with [his] own people” and to finally get a chance “to actually get involved in our community…and for once I can get the fulfillment that I have done something to help my people” and not just work for corporate America’s interests.

My dream was to go up higher, somewhere higher to be able to help people. That’s my philosophy…if I’m going to pull somebody down, then I might as well excuse myself quickly because I don’t think that is why I got put in this life to do. So, that basically what it was so fundamentally it [the prospect of working for BFB] was ‘sold’ [to me] and it was ‘sold’ because it has the ingredient that I want, the Black bank. Two, it was a small bank and three, …[by fulfilling BFB’s mission] I can do something… So this is the first time that I felt like I can, I can really make a difference. Seriously I mean, I looked at it and I said I can, I can do it but the fact is I have to be a steward.

One central aspect of why Adwin feels like BFB is “home” is because at BFB he is able to help his “own” community, that is, the African American community. Adwin’s approach to race and racial solidarity is global in that he began identifying with African Americans when he himself was a teenager in Ghana and read about Civil Rights Movement and taped Angela Davis’s picture on his wall.

Adwin left his career at a large mainstream bank in order to do work to benefit people who are in need. Adwin feels that Broadway is unique because it has a “family setting, [and] you feel like you are part of one big family.” Adwin explains further:

I say for some reason I just felt…that Broadway was what I was looking for all these years. Sorry, I mean you know this is, it is a feeling I mean I’m trying to get it…--the feeling because I tell everybody that this actually made my clients perfect.

You see because I couldn’t script it any better than [that]…I like to help people, I like to you know I want to feel part of my community and before I can even feel like doing anything--because don’t forget working in a bigger bank and doing the things that I do-- I’m helping people [already merely by providing financial
services]. Okay, but helping people that are really in need is what one of it. I mean and when I first came here and learned about the history!

Adwin was really impressed with the history and the mission of the bank because it matched his logic of reinvestment and personal mission. He attributes this feeling to the perfect combination of the bank’s mission to serve the black and marginalized community, its history with civil rights, and the bank’s small size. For Adwin, race plays an important factor in this—but at the end of the day, it’s not about the color of one’s skin, but about the goal that the staff and leadership share—to provide equal opportunity for the underprivileged, not only blacks and not so much blacks who are middle class. In other words, Adwin is particularly interested in “helping people that are really in need.”

Adwin’s personal logic of reinvestment values black history and the black community and his personal dreams and commitment to reinvesting in the black community fits seamlessly with BFB’s historic role in assisting the black community. He explains what an easy decision it was to leave his former job to work for BFB:

Well, I mean that’s easy though, that’s very easy because um we all know how Broadway came to be, why it was established for um, a group of people came together you know to pool their funds, to help each other in the community and um and that’s they’ve done. They um basically they didn’t deviate from if they are helping each other through some lending to progressive people of color and it’s true that they’ve been able to maintain it and you know, existing for sixty years. I think that is phenomenal, I mean most businesses don’t last that long and especially partnerships. When you get a group of people coming together and through that….I mean through um as a matter of fact I’ve always said about Angeles Federal Home, KJLH and all those um companies that are very influential in the black community and if I hadn’t come here I wouldn’t have realized that, I mean they are all intertwined, related one way or the other.

Adwin’s story reflects the complex and international aspects of race and racial solidarity. At the same time, it also reflects the basic needs he wanted as a professional banker. It was an easy decision for Adwin to work for BFB because it is such a historically significant and important place and organization for the black community. As he learns more about BFB’s historic and current networks to the community, his loyalty and commitment to BFB increases. Adwin’s
particular logic of reinvestment values the history, the welfare and networks of the cornerstone organizations of the black community—BFB, the KJLH radio station, the Angeles Federal Home funeral home. But also, Adwin felt BFB was such a perfect fit for him because at BFB, he felt that the management had a regard for his personal well being, gave him more flexibility to take care of his family situation, and more opportunities for professional development (by getting to work in different capacities). Furthermore, he felt that he was respected, appreciated, acknowledged as a professional and a human being. Similar to Adwin, many others at BFB left mainstream jobs for BFB in part because they wanted to have this “family” feeling as well.

**Eugene: “My experience, my contributions, are taken much more seriously.”**

Eugene is a Senior Vice President at BFB. His experience at BFB reflects many of the employees’ experiences and captures why many feel BFB is a “perfect fit” for them. Eugene has many social and business ties in the African American community and knew several of the board members from activities outside the company before he began working for BFB a few years prior. He worked in mainstream financial organizations for over three decades but has really enjoyed working at BFB. Eugene explains, “I feel like that my experience, my contributions, are taken much more seriously, and that’s satisfying.” In mainstream organizations, Eugene says that often an employee is not “given an opportunity to speak along topics that are beyond your span of control or your span of responsibility.” When I asked him if he feels he is taken more seriously and has more influence because BFB is a small bank, he replied:

You know, I think because it is a small bank it has something to do with it. There’s no question. Um, but the other part is [that]...one of the things that I’ve learned about working at corporations, as you move up the corporate ladder, there is an assumption that people at a certain level have a certain skill set. Okay, they may be arranged around a skill set, but there’s an assumption that you can’t get [new]...skill set requirements. So many times the distinguishing factor has to do with how well will the organization trust you, ok. Trust your decisions, trust your inside, trust your leadership to run the company and here I feel I’m trusted, much more than I was at City or at Option One or at Washington Mutual. Even now, you know, I have varying degrees of considerable responsibility in some of these other larger organizations, but it is still like within a real narrow channel.
Ok, and here it is broader than that. And when someone asks me a question it is not only from a minority perspective but from a CRA perspective. But it’s probably a business perspective. And that is very satisfying.

Eugene’s satisfaction with his job at BFB is rooted in the trust the executives place in him and the resulting influence he has on the company, but also he is appreciated and respected for his business expertise—not for his “minority perspective” as an African American token as he was in the mainstream banks he previously worked for. As Paul C. Hudson explained in an interview, many of the staff coming from mainstream organizations have hit the “glass ceiling” before deciding to work for BFB. That is, many of the staff members coming to BFB from mainstream organizations felt they were “invisible” and wanted to “leave a mark.” They felt they would not be promoted any further because they were not part of the so-called “old boys’ club” and/or were jaded by the cut-throat profit driven atmosphere of their workplace. Therefore, they welcomed the “family” and community oriented feeling at the bank where they felt that they could make a difference and be “heard.” Either way, feeling like a token (hyper-visibility) or invisible at an organization makes one feel unacknowledged. The mentoring at BFB has the opposite effect: it makes the employee feel valued, seen and important.

In sum, many of the staff members feel that they are a “perfect fit” for BFB because BFB offers good middle class jobs and because BFB’s mission to help the community matches the staff members’ personal desires to expand others’ opportunities by using their professional skills and expertise. The management’s offering of mentoring (moral and professional support), compassion and generosity reflects how the bank is offering the flexibility and the less stressful profit-driven atmosphere that the staff members have been looking for. And the respect, trust and encouragement the BFB management showed Brenda, Adwin and Eugene shows how BFB operates in a way that makes the employees feel like a “family” and at “home.”

Eric: “Maybe it’s [Broadway Federal Bank is] a bank with a little heart.”

Similar to Adwin, Eric felt that BFB was like his “family” because he wanted to use his
financial skills to help the needy and he needed to “give back” in order to feel fulfilled. However, unlike Adwin, Eric’s feelings of being at “home” are not based on the sense of racial pride because Eric is white. After having worked in the banking industry for a decade, Eric became disillusioned with the profit driven and cutthroat aspect of the industry. But one day an old friend called him with a job opportunity with BFB. When Eric heard that it was a job with a bank, he turned down the offer. But after hearing BFB’s mission, Eric changed his mind:

That’s why I went there [BFB]. I went there [BFB] because—I had no intention of going back to banking. I had left banking, right? And got into technology for a while and then, um, was actually my friend called me and said, ‘Eric, I have this opportunity that I want you to consider.’ I said, ‘Joe, is this a bank?’ He said, ‘Yes, but don’t just say no.’ I said, ‘But Joe, no banks. Thank you for looking. Thank you for—.’ He said, ‘Well wait, listen. This might be different. You might—.’ And he started telling me about it and I thought, ‘No banks.’ But I was intrigued. I said, ‘Ah, this is different. Maybe it’s [BFB is] a bank with a little heart.’

I wasn’t looking for a bank with a heart, but if I were going to go into banking, I didn’t want it to just be about money. And that’s what attracted me. I was like, ‘Ah, this is an interesting mission. It’s an interesting history. I think I might want to be a part of that because it appealed to the part of me—the compassionate, the wanting to give to the world and do something more than just-make-a-buck part of me. And I’m a capitalist and an entrepreneur and I want to make a buck, but that’s almost secondary, I want to feel like I’m doing something decent while I’m at it—for the world. (italics mine)

Eric explains further: “So, basically, what I’m saying is that the very thing that the bank has the mission to do and that same thing – that mission is what attracted me to come to the bank because it aligned with my own desire to also – to both make money and do good for the world. We shared that core value.”

Having been burned out by the banking industry’s emphasis on profit margins, Eric was intrigued and excited at the prospect of working for a bank whose mission was similar to his: to give back to the community.

Whether it was, you know, engrained through my upbringing, or whether it was just something that I have innately, or some combination thereof, um, I always felt like, you know what matters to me, yeah, I’d like to make money, I’d like to make more of it, but really if I wanted to be super wealthy, I would have made a
lot of different choices along the way. What matters to me most is feeling, feeling like I’m making a contribution to the world that is worthwhile and beneficial. That is rewarding to me. I don’t really think that there are such things as selfless acts, for the most part. If things appear selfless, usually they are done in part to feel good about what you’ve done. And that’s a selfish component. That feeling good, right? Um. And so I suppose in a separate side of the coin, I want to feel good, like I’ve made a contribution…

[For] some people, the money is enough. It’s like, ‘Great!’ For me, I want something more, and so when I started to hear about Broadway and learn about it and understand it, and its history—its history really got me. This is different, this is unique. This isn’t just going to work for any old bank. This is a, this is a unique bank with an intriguing history with um, a family history that’s all wrapped into it, that, and as I got to know Paul [Hudson], um, I got to know more about it, and, and I also…saw the, the problems they had and the challenges that those presented. And that it needed fixing. So there was that component that for me is very intriguing. When I added that on top of wow, it’s also, it’s also it’s also a bank with a heart, you know. It’s really a good job. It’s something I know how to do.

Eric was brought up in a family that valued communal support and doing work for the greater good. He had decided to “give back” through a bank. He explained that he believed in the power of community banks to build a stronger community. In particular, he decided to work for a black bank because he believed how race has historically been used as way to scapegoat a group of people.

Near the end of my internship at BFB, Eric resigned to pursue a dream work in the non-profit sector after working at BFB for seven years. And when I interviewed him again after his resignation, I asked him how he felt about his choice to leave BFB. His response reflected most of the responses I got from people I interviewed who had left BFB: he missed his “family”: “Truthfully, I don’t miss banking, but I really miss Broadway. Because banking is just a job, but Broadway is family. That’s how I felt. Yeah, like deeply, emotionally. This is family to me. And um, always will be I think, you know…I was torn in leaving for many reasons, partly because I was leaving family.”

Eric’s logic to reinvestment of compassionate capitalism aligned perfectly with BFB’s conscientious capitalism, a legacy left behind by the founders. For Eric, he did not describe
“family” and “home” in racial terms—that is, he did not decide to work for BFB because he felt like the black community was “his own” as Adwin did. But for him and others at BFB, marginalized could be any color but there is a recognition that African Americans remain among the most marginalized in US society. This underscores the fact that although BFB is often described as a “black” bank, it has always been open to serving all those who are marginalized, not just African Americans.

On (Self-)Segregation

My respondents felt like they were at “home” at BFB in part because they felt the commonality of their desire to reinvest in the community, but also because of the comfort they found in working in a “family” of other co-ethnics who understood the stereotypes they had to face as racial minorities working in mainstream institutions. As mentioned above, this comfort that my respondents felt is captured in Nancy Abelmann’s discussion of what she calls “comfort zone,” a place where minorities come together because they feel safe. In The Intimate University (2009), Abelmann tackles the criticism that racial and ethnic minorities choose to “self-segregate.” She points out that “comfort zones” and feeling comfortable cannot be taken at face value. That is, we cannot automatically assume that if co-ethnics choose to work with each other or in the case of the university that Abelmann studies, hang out with each other, that they are just comfortable and that there is no more to the story. In fact, Abelmann asserts that people segregate or feel comfortable with their co-ethnics precisely because there are social forces or circumstances that make going outside of their co-ethnic circle uncomfortable. She writes:

It makes no sense to categorically distinguish self-segregation from some sort of segregation proper. In nearly all instances in this book [The Intimate University (2009)] in which students commented on Korean American responsibility for their own segregation, moments earlier or later in the conversation they reflected on the ways their segregation was sculpted by forces far beyond their own making. (3-4)

That is, the atmosphere at BFB can easily be described as a comfort zone where African
Americans choose to “self-segregate,” but as Abelmann so eloquently points out, there is no difference between self-segregation and segregation proper because in both instances the people who are segregated are responding to outside forces of alienation and therefore feel comfortable among their co-ethnics.

She further asserts:

But when we appreciate that the racialized burdens I described earlier are borne collectively, it is no surprise that ethnically organized social groups or social lives persist. Now, with the assertion that these groups or social constellations take on racial work (or reaction), I do not want to overstate the case. Not all intraethnic camaraderie should be seen in this light; some of it should be appreciated as just that, comfort zones, plain and simple. But I think that the portraits in this book convince that some intraethnic camaraderie does speak to these particular burdens and the work they inspire or demand. (150)

The distinction between segregation and self-segregation does not make sociological sense because it takes the individual outside the context of the social arena. In other words, the Korean American students in Abelmann’s study do not live in a social vacuum and the implication of using the term “self-segregation” is that they do—that they make choices without any regard to circumstances that they face—as if social forces do not exist. In the same vein, it would not make sense to see the choices of the people who choose to work for BFB as a choice for self-segregation, but as a choices to work in a racially conscious place in light of racialized structures, opportunities and experiences as seen throughout this dissertation.

“Family,” “Home” and the Reproduction of the Logic of Reinvestment

For the management, creating a bank to feel like “home” is a business strategy to attract customers who are tired of the impersonal services at large mainstream banks. Part of the feeling comes from the fact that BFB is a small organization and is more likely to feel more personal like a “family.” The staff’s personal missions to reinvest in the SLA community also contribute to this feeling. Finally, the being at “home” feeling reflects the historical legacy of the bank as a safe haven for racial minorities who were excluded from financial services at mainstream banks.
since it opened in the mid-20th century. The employees’ stories of why BFB feels like “family” and “home” to them captures some of the key reasons why some people decide to work for BFB despite having other options available to them. The values and goals the staff brings with them to BFB add to the LOR bank culture and to the feeling of being with a “family” who share a similar mission. The motivations of the staff to “come home” and work for BFB is a combination of BFB being a good middle class job, the staff is racially conscious, the desire to reinvest in the community—or a combination of these factors. BFB offers good middle class jobs for its staff because it provides good benefits, a competitive salary and flexibility in work hours. In addition, the BFB management showed concern for the employees as people, not just workers—supporting their professional development, their work-life balance and sometimes even exceeding expectations by attending their children’s sports events.

Many of the employees were looking to use their professional skills to reinvest in the SLA community by using their skills to open opportunities to others who otherwise were neglected by the mainstream institutions. There are many ways employees accomplished this: combating negative racial stereotypes by being and supporting positive role models in the SLA community; providing quality services to everyday black folks in the community through financial education and counseling. Therefore, the feelings of “family” and “home” had a geographically specific component to it. Sometimes the desire to reinvest coincided with the staff members’ consciousness of the effects of race not only in their own lives, but in lives of others as well. Many of the staff have had powerful experiences with racism, but for some like Eric, who is white, even if they may not have felt how race negatively affects their everyday lives, they were cognizant of how it affects others. For those like Brenda, this racial consciousness took on a personal dimension as she wrestled with her own experiences and annoyance of being treated like a token in the mainstream organizations she had previously worked. Thus, they saw BFB as a racial refuge that offered them comfort and/or was a place where they could further their racial
solidarity and consciousness. Furthermore, the BFB staff is trained to provide an “automatic extension of credit” to their clients. This “credit” does not always refer to a loan. Instead, it refers to the respect the BFB actors give customers by being willing to listen to their stories. Therefore, in many respects, the bank provides a social, psychological and financial haven for both the marginalized staff and the customers who feel comfortable and proud to contribute to an institution that is a legacy of the civil rights and a symbol of enduring empowerment, independence and strength.

Regardless of what combination of factors that a staff member may have in deciding to work for BFB, they are all brought together by the feeling of “family” because they appreciate the compassionate and professional work environment and the bank’s mission to assist not only the black community, but those who have been marginalized by the mainstream. Whether the employees only believed in the conscientious capitalism that the founders left behind or if the employee felt like he was acting like a steward for the black community, their goals were the same: to serve those who are did not possess the power and advantages of “whiteness”—whether or not they were black or white.

Finally, another crucial reason why the staff at BFB feel like they are in a “family” and are at “home” when working at BFB is because the logic of reinvestment plays such a strong role in the everyday life at the bank. That is, because the priority of reinvestment is omnipresent, it helps the staff feel like they are all working as a team to help the community, the extension of their “family” at the bank. One way that their family is extended is through networks and the building and maintenance of networks are taught primarily through mentoring at the bank. The reason why mentoring is so important is that it 1) inculcates the LOR in the decision-making framework of the staff; and 2) it reproduces the chain of trust that the bank must have in order for the management to trust their staff to make and maintain connections that they will later rely on to make decisions on things such as loans. As I will elaborate later in the dissertation, this is
because networks work to anchor the borrower to the community and hence, the bank, and also because the bank uses networks, social capital and trust to reduce the uncertainty of losing money on a loan. In this way, the bank can extend more loans to borrowers who do not fit the cookie-cutting mechanical formula of credit evaluation that mainstream banks use.

IV. Reproduction of the Logic of Reinvestment: Training and Mentoring

Having a staff whose personal mission of contributing to the community aligning with the bank’s mission is one significant way to serve to fuel and support the reproduction of the LOR. Another important component to the reproduction of the LOR is the initial and ongoing training and mentoring the bank’s management engages. The initial training at BFB teaches and inculcates the staff on how to implement and rely on the LOR banking culture to make decisions. The staff implements this culture by how they treat and relate to the customers. As part of their ongoing endeavor to maintain the LOR, the BFB management continues to mentor and open the lines of communication with the staff. A good example of how the LOR is continuously implemented, exchanged and communicated is by looking at how the Relationship Management group at the bank operated. Training and mentoring is essential in the bank’s continued effort to achieve the dual mission of profit and community.

In addition to the staff bringing their own desires to reinvest and foster the LOR bank culture at BFB, the management’s longstanding practice of mentoring at the bank has also contributed a great deal to the reproduction of the LOR as well because of the training it has provided generations of employees. The mentoring at BFB helps the bank to feel like a “family” because it is one of a myriad of ways that the management shows the staff respect and gives them opportunity. Mentoring has been an integral part of the mission of BFB precisely because BFB was founded in the era of racial segregation in which blacks could not get a job working at a mainstream bank owned by whites and therefore could not gain the experience and skills working in the banking industry. Therefore, the training of blacks was arguably as equally an important of
a goal for the founders of BFB as making home mortgages and basic banking services available to African Americans. Even though mentoring at BFB has changed over time, it remains a significant practice because it is an important way that the management reinvests in the community—by directly investing in its employees by giving opportunities to learn and to achieve work-life balance. Furthermore, the staff’s appreciation of the mentoring at BFB highlights the invisibility and marginality they felt working at mainstream organizations—a reflection of both the harshness of capitalism and also of the subtle kinds of racism that still exists in the post-Civil Rights era.

At the heart of the mentoring and training that goes on at BFB is the idea of reinvesting in the “human capital” of the community. The logic behind BFB as a training ground is summarized by Estella:

> And even the young tellers that come in here—they may come and go, but Broadway gives them that opportunity to get a good foundation. And even though we’re small and we probably can’t compete once they get training with the Bank of America’s, but if they can get the good solid training and move on, at least Broadway has contributed to their financial growth and to their career and then we have other people coming in to replace them. It’s a constant training ground and it’s providing jobs and career opportunities for young kids who are going to school, working part time, to build a foundation and then to help them further to the next level where they can probably increase their earning power and maybe go into a different another area. Some of them will go school and probably not come back to banking, but at least it will give them some foundation of work ethics and at least help them with their financials as they move through school. But Paul [Hudson] has always said that Broadway Federal has been a training ground for young people and you know then ironically, some people start here and they go to a big bank and they come back.

Estella’s description shows how the focus of mentoring at BFB has been on the importance of helping individuals to achieve his or her dreams and become a successful citizen—and not so much focused on how the training can benefit the efficiency and profit margin of the bank itself. This attitude and way of understanding mentoring reflects the management’s commitment to the logic of reinvestment embedded in the mission of the bank and has been a longstanding goal in
mentoring that has stayed constant throughout the decades.

Another important goal of mentoring at BFB has been the training of staff to use the LOR in their decision-making process to further the dual goals of profit and community. When the employee is well-trained, she will embody the framework to make decisions that will ultimately ensure the chain of trust that runs from the staff all the way up to the management. As we will see in the following chapters, trust is important because it is used to mitigate uncertainty, and open up opportunities to those clients who may not have many options elsewhere. Because mentoring teaches employees judgment, it is a key component in the reproduction of the LOR at BFB. Finally, a discussion of mentoring at BFB is valuable because it reveals the complexity of BFB’s task at hand in its six decades of operation. As a social phenomenon, mentoring, like race, has changed along with the social milieu of the times. As we will see in the later chapters, BFB has been fighting an uphill battle trying to adapt to the changing technology, institutional demands, and demographics of the SLA community. All of these demands bear on the operation on BFB and its ability to reproduce the LOR in an institution that unceasingly demands ever increasing profit margins. The following describes what mentoring at BFB has looked like at different periods of time: from its founding in the 1940s until the 1990s and from the 1990s until its current operation. The employees’ experiences with mentoring will show that even though mentoring has changed throughout the decades, it nevertheless remains significant because it reflects the bank’s mission in supporting the community.

Training and Mentoring in the “Family” (1940s-1990s): Broadway Federal Bank as a Savings and Loan Association

“I’m going to teach you...how to manage and supervise these people because it’s an art form.”

The senior management plays a crucial role in creating the “family” feeling at BFB by treating the staff with respect and by giving them opportunities to grow professionally and
personally. Since the establishing of the bank, the upper management has attempted to instill status equality by decreasing status hierarchy in the workplace through social interaction. For example, when Elbert T. Hudson was CEO of the bank from 1972 to 1992, he would “go from floor to floor” to say good morning to each and every employee every day. Many of the longtime employees often talked about Elbert Hudson’s habit and also of the legendary Halloween potluck parties where the staff would dress up in costumes to win the “best dressed” category and where middle-aged women would bring home cooked meals and it would feel like Thanksgiving. Laura Humphrey, a former staff member I met at a community event, describes her fondest memories of BFB:

He [Elbert Hudson] knew everything about you, he knew if you changed your hair, he noticed if you had a new dress...[W]hen he came in the morning he would...greet each individual, in each department and he would speak to each [person]...Every morning. That was a must. He did it every morning. Whenever he came in [to the office] that’s what he did. He’d greet you and that made it personal because it was like we were family. Like when you were away, it’s like you’re leaving your family. Because it was family...We used to have, like something would come up every year, and we’d have pot luck, Halloween potluck. It was really great.

On Halloween it used to be like Thanksgiving...[E]verybody would dress up, the tellers they really dressed up, and they had such nice costumes...[T]hey had prizes, first, second and third prize for whoever had the best costume on so it was a bigie to do it, but the best was we always had a potluck and the potluck was, I mean the pot luck wasn’t like the pot luck today where the people going by suddenly bring it, it was like everybody cooked something because we had a lot of middle aged women and stuff there that liked to cook and stuff. I mean it was like Thanksgiving, turkey. And we had this, uh Kim Hicks’s sister Leander Cooper, Miss Cooper and she used to make homemade rolls, and you could smell them up on the second floor because she would put them together but she’d bring them there and bake them. And oh my goodness, and Miss Block she’d be down there getting everything ready, oh, I mean it was just like Thanksgiving, turkey, dressing, just the whole and that was the best.

The personal greetings by the President of the bank and love, enthusiasm and care tucked into the Halloween gathering—whether the care be placed in the making of the Halloween costume or in the food for the potluck—made the staff feel like BFB was a big family where the staff and management cared and felt loyalty for one another. However, among all the strategies that the
management used to cultivate the “family” feeling (and loyalty), mentoring is probably the most effective in making staff members feel appreciated and acknowledged. It also is a way for the management to communicate the orientation and mission of the bank; as well as establish communication and trust among the employees.

As mentioned above, mentoring has been an integral part of the mission of BFB since its founding. We see the legacy and extent of BFB’s commitment to developing the “human capital” of African Americans in the words of Laura and Lorraine, a longtime employee of BFB. The leaders contribute to a mentoring atmosphere by encouraging the acquisition of new skills. Laura, who worked for BFB in the 1980s, recalls how the management would subsidize the costs for additional training for their employees: “They [BFB] offered like if you want to be a student they would pay for you, you would take finance classes, and things like that, they pay for…what’s the name? They would pay for fees…to help you and you learn a lot. They also push you to learn, all that you can learn.” Laura Humphrey’s experience shows the organization’s goal of helping employees learn all that they can about banking and to hone in their skills. The extent to which the BFB management invests in the training of their staff is captured in Lorraine’s experience. Lorraine began working for BFB when she was in high school in the 1970s. While in college, she would return to work part time during the summer breaks and then after college, she began working for BFB full-time and worked her way up as branch manager. Lorraine explains the type of mentoring she benefited from and that the family feeling was partly rooted in her experience with her mentor, Lamar Wilson:

Lamar Wilson was a wonderful man, and he was the controller, when I came in as a kid and I’ll never forget when they brought me back after college and made me the assistant manager. I had like children, nineteen, twenty, twenty two year olds. I was a kid myself and they were all very strong personalities and a couple of hard heads and they were great tellers but attitudes needed some adjusting. And I remember I was trying to put them into shape and get it all together and he pulled me to a side and said it’s not about being given a dream team, take each person and look at their talents and with their propensities you have to figure out how to harness each one up and turn them into a team do this and do that. Lamar
said, ‘I’m going to teach you how to do that, how to manage all these people, how to manage and supervise these people because it’s an art form,’ and I said, ‘Ok, I’m willing to learn’ and so that’s what we did. Because he said ultimately you can go to mainstream banking. The problem with mainstream banking is that you get pigeonholed because the operations are so enormous they give you one little facet of the operation and they tell you this is what you are going to do. He said here in Broadway you do it all so by the time you finish you’ll be able to supervise, be able to do operations, you’ll be able to do human resources, you’ll be able to do business development dah, dah, dah. Well, happily that was true because when I left Broadway and went over to Inglewood Federal I had all those tools in my tool kit so I was able to sit down and take a bank that was in a charter position, start a position and turn it into a full-fledged functioning savings and loan. So I’m living proof that you can do a grassroots and it’s a lot more rewarding, grassroots.

Lorraine admits that although those were “different times,” it was still uncommon in mainstream banks to have a controller be such a good mentor and coach: “Mr. Wilson was very hands on, he passed by the tellers, he passed by all the departments every day, and laid eyes on you, or pulled you aside and said, ‘We need to talk—this is good, this is not so hot.’” Lorraine’s experience at BFB shows the extent to which the management respects and invests in the training and mentoring of their staff.

Lorraine explains what she finds most special about BFB—the family that has been created from camaraderie, friendship and mentoring:

Broadway has always just been family. Some of my best friends worked at Broadway, some of my best mentors, some of the best advice I ever got came from Broadway. And you know, I’m proud to announce that I am a graduate of the Betty Clemmons School of Banking... Because you know, Betty taught myself and a whole lot of—I mean, a legion of people who are now all out in mainstream America as bankers, as loan officers, just a tremendous amount of talent...It really does make you tear up ‘cause it’s a really powerful force and I was happy enough to come up in banking at that time when it really was a service industry. Ahh, the kids nowadays don’t have that. They just get shoved into teller window and they’re given a cash box and they’re told to balance at the end of the day. They’re not taught how to talk to customers, how to market products, you know how to follow-up on people, ah, and certainly there’s no big push to develop any tremendous camaraderie. Because even after I left Broadway after graduating college and I became a vice president over at Inglewood Federal Savings, there was camaraderie in the industry and everyone communicated.

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61 Inglewood Federal Savings and Loan was a community-based black institution that opened on December 28, 1979 and closed exactly 27 months later.
You know, if you found great employees, you know you shared employees, it was just a kinder, gentler industry back then. And so, I’m real happy that I got into at that time and I got the benefit of that.

What Lorraine’s experience shows is the time and effort the senior management dedicated to her own professional development. But what is often overlooked is how mentoring is an effective way for the management to ensure the employees’ inculcation of the LOR and its principles. Embedded in the skills that the senior management teaches employees like Lorraine is also the logic and principles of the LOR associated with such skills. Lorraine was taught how to make decisions and use her judgment and in turn, Lorraine passes on these skills to those she supervised. But times have changed and the mentoring at BFB has changed as well.

Training and Mentoring in the “Family” (1990s-Current): Broadway Federal Bank as a Publicly Traded Corporation

By 2006 when I began interning at BFB, the training and mentoring had become a less intense type compared to what it was in the 1940s to 1990s period. When I interviewed the BFB employees, I noticed a difference in how much the long time employees talked a lot more about the quality and extent of mentoring at BFB than the recent employees. This is not to say that training and mentoring did not exist. In fact, at BFB’s Mid-Wilshire corporate branch, I often saw how Miss Jan, an elderly lady who had worked for BFB for decades, trains tellers—new and old—how to greet and talk to customers and organize their paperwork and drawers at their windows. Every so often, Brenda Perry, the branch manager of the corporate branch, would also stop by and give pointers to the tellers on how to present themselves or what to do if a customer was being difficult, etc. For the staff with more independence and mobility around the corporate branch, such as the loan officers and underwriters, I would often see them stop by the CEO Paul C. Hudson’s office to ask for advice or to discuss a business deal they were working on. When asked, all of the staff I spoke to were happy with the type of training and mentoring they were receiving, but having spoken to different generations of BFB actors, it was clear that the 1990s
proved to be a turning point in the bank’s history of mentoring and training.

In the 1990s when BFB was in need of additional capital, the BFB management decided to convert BFB into a publicly traded company under the leadership of Hudson. Although Paul C. Hudson does not go around the company saying good morning to everyone like his father, he nevertheless carries on his predecessor’s tradition of showing respect for the staff by setting a tone that nurtures the comfortable and strong relationship he has with the staff. When I asked Paul C. Hudson about this difference, he responded by discussing how economic and regulatory constraints have increasingly kept him personally from mentoring as much as he would like:

What has changed is the amount of time that I spend mentoring and interacting with employees because of the pressures and time commitments of the current economic and regulatory environment. We also have more employees that are spread out in different locations. During my Dad's [Elbert Hudson] tenure the Bank was smaller, more centralized and my Dad exhibited more paternalistic characteristics and behavior. Some of the change may be attributable to new department managers that are from outside the community or not as family oriented. We have a number of new department managers that are supervising older-long term employees...Times change and institutions change to the family is retained by my leadership, but I understand if people feel like it is not the same, because ‘it’ probably is not.

The changes Paul C. Hudson refers to is series of institutional changes that have occurred over decades. Therefore, although I use the 1990s as a defining period for the changes in mentoring at BFB, there is not in fact a distinct, “black and white” shift in the mentoring practices at that point. The changes in mentoring had been gradually shifting toward a more hands-off approach starting in the 1970s when the banking industry was becoming more global and competitive. This trend continued with the merger mania in the 1980s when small community banks like BFB were faced with a lot of pressure as they struggled to stay independent. (For more on these changes in the banking industry, see Ch.1.) But I chose the 1990s as the period in which the “more paternalistic” and hands-on mentoring waned because the bank became a publicly traded company in 1996. With its new status as a publicly traded company, the management had even more pressure to produce profits margins large enough to appease its stockholders, thus reducing
the time the management could use to mentor.

However, although the senior management now may not be as “hands-on” as Lamar Wilson, what has not changed is the fact that BFB management still give their staff the opportunity to learn. As Sherri, a loan officer, puts it in a 2010 interview:

I believe they’re [BFB] a lot more special [than other community banks]. And, but, to put that in words is really hard for me. I don’t know how to put that in words, it’s just a feeling. You know, and, as an, I think that they trained, over the years, many, many employees and that are, went into the mainstream banking, that may not have had that opportunity without Broadway. Definitely believe that they helped me in my learning process. And even though I had years of experience I’ve learned so much while I was here. Um, and especially for the young people, I just think it’s invaluable, the, the opportunity to learn.

This opportunity to learn and grow through mentoring is still at the cornerstone of the BFB experience for the staff at BFB. A leader chooses to mentor because she has the faith in the mentee. The leader respects the mentee enough to invest time, energy and effort in supporting and developing the mentee’s skills. There is also a certain amount of faith and trust that the mentor must extend to the mentee. It is this respect, appreciation, faith and trust that we see many leaders of BFB extend to their staff members. For example, Adwin is a recent employee who pointed out the exceptional mentoring by BFB management.

Respecting Employees as Community Assets: “It makes me feel more appreciated, it’s very fulfilling.”

Adwin, an employee who began working in 2006, describes how the unique culture of BFB comes from the “top down” because as a staff member he takes cues from Paul. Adwin asserts that Paul, as a leader, influences how everyone else behaves. Adwin says, “You can walk to his office and talk to him [Paul]…I’ve seen him deal with other people, with different clients in different situations…He influences everybody [here at BFB].” Adwin describes how he interacts very freely with the leadership at BFB. He acknowledges that he came to BFB already having met Alan, the President, when they were both working at Comerica and perhaps that may help
them get along so well. But Adwin says that the comfort and ease he has being frank with the leadership and vice versa goes beyond his relationship with Alan, who will disclose to Adwin what happened with the deal, what a mess it was, etc. He also feels very close to Paul, the CEO, and feels comfortable enough with him to tell him what he does not like—there is a special interaction that is easy and there is trust and honesty there. Adwin says, “I haven’t seen anybody that is, you know, homesick.”

The advice that the management gives goes beyond the business advice that pertains to the company. Adwin describes a situation where there were some major changes in the company and the CEO, Paul, personally called Adwin to discuss the situation and to personally tell him what was going to happen.

When it [the changes] happened, Paul called me and said, ‘You know, this is going to happen…’ That was great. And he [Paul] said, ‘Throughout our life… I’m going to be there to support you…’

So it makes me feel more appreciated um, it’s very fulfilling, makes me feel like I got, you know, more like the family setting that I want…

Adwin said that in his previous company, there was no chance that anyone would do the same thing. So Paul’s phone call represented the way in which management reaches out to the staff to let them know that they are respected and appreciated. This in turn fosters the feeling that BFB is a “family.”

Another way the management shows respect for their staff is by looking out for their staff’s best interests. For example, the management begins their mentoring even before the individual becomes an actual employee. Adwin describes the advice he got from management when he was trying to decide whether or not to leave his job at a big mainstream financial organization for a job at BFB. Adwin said that even though the management at BFB were indeed making their best pitch to convince him to work for BFB, they were also clear in telling him the potential pitfalls of the offer. Adwin said, “At the same time they were trying to talk me out of working for Comerica [my old job],…at least they we are trying to advise me about the fact that
…there’s more risk involved in joining…[a smaller sized] business.” Therefore, Adwin felt the management had his best interest at heart right from the beginning. That feeling increased as he worked for BFB as he saw how his new supervisors at BFB encouraged and supported his efforts to learn all the different parts of the banking industry.

Part of the respect the management shows to their staff means encouraging them to develop to their full potential as professionals through mentoring and giving the staff the opportunity to learn new skills in their work. The management gives advice, training and mentoring to staff so they can fulfill their potential as professionals. Most businesses that are driven by profit will not do this because they will not invest the time and energy into an individual because it cuts into profits. For example, the business may fear that after investing time and energy into training an employee, that employee might leave the organization.

Adwin had such an experience at a mainstream financial organization he worked at before coming to BFB. He wanted to learn different aspects of the banking industry and even though underwriting was not part of his job, he wanted to learn underwriting. He asked his supervisor if he could take underwriting courses and the supervisor denied his request. Adwin thought if his training came to no cost to the company, then he would be allowed to take the course. So he asked his supervisor again, this time asking if he could use his vacation time to attend the courses and he would pay for the courses out of his own pocket. Again, the supervisor said no without an explanation. Adwin suspected that the supervisor was worried that if Adwin received more training, he would leave for a better job and the supervisor would lose a good worker. Contrary to this way of thinking, BFB has a tradition of mentoring and training staff to be skilled, well-rounded professionals. For example, Adwin is allowed to “wear different hats.” At BFB, Adwin gets to do a variety of tasks that he wanted to do at his old firm but was not allowed to. Having an opportunity to do different tasks is important to Adwin because it allows him to learn and gain skills and broaden his “repertoire.” For example, at BFB Adwin specializes
in lending services and goes into the secondary markets and picks and chooses which ones he 
thinks BFB should choose to establish the basis of its portfolio. And in doing so, he also gets to 
underwrite these particular deals that he has helped choose. So at BFB, Adwin does a whole 
spectrum of work. Adwin explains:

[Even though] I came here as an analyst...I do the underwriting and I talk to the 
clients...I do all the things that the manager officer does...There are unique 
things...I’m doing right now. If I was in Comerica, it would probably take me 
forever, you know, to do it, to get to do it, because here for us I get a chance to 
spend more time on documents and all those things. And back in Comerica we 
have a place that specifically will do that for you and the things we have to do it 
through...So you know the way it is here I am my own assistant, my own 
underwriter, my own analyst and I have to you know, take care of the client 
myself.

For Adwin, being able to “see a deal through” adds to his professional development, something 
that has always been extremely important to Adwin.

Admittedly, part of the reason why it is much easier for Adwin to find the flexibility to 
“wear different hats” at BFB is because BFB is a small institution. At mainstream organizations, 
big bureaucratic structures dictate the organization and flow of the financial deals and therefore at 
most of such organizations, the work there is highly fragmented and specialized where one 
division handles one task. But in addition to BFB’s inherent flexibility due to their size, the 
management at BFB also has to extend a certain amount of trust to their staff in order to allow 
that. That is, the management has to trust that the staff member can handle the juggling of so 
many tasks and that the opportunity for professional growth does not result in the staff member 
wanting to leave for another company after her gaining training and experience at BFB. It shows 
that employees at BFB do not feel like cogs in a machine, but rather, they feel respected by the 
management who is encouraging their professional growth. This trust in the abilities and 
potential of an employee is what attracts many people to work for BFB. Furthermore, the trust in 
a mentee represents the first link in the chain of trust that the management must maintain in order 
to achieve their goal of profit and community. When an employee is mentored well, the
management teaches him how to pass on the trust to potential loan applicants. This is important because it is this chain of trust that facilitates loans to clients who may not have stellar credit reports.

There are many aspects of mentoring. Adwin’s experience is an example that the extent of mentoring and the flexibility given to the staff is not just a fluke or just because BFB is a small company that does not have as much bureaucracy as mainstream companies. Adwin is allowed and encouraged to learn the many different aspects of a loan because BFB has a long and deeply embedded history of mentoring their staff and because the BFB management offers moral support and makes the employee feel that they are important as a person—not just a worker.

**Grooming Employees for Positions of Power: “I needed that push.”**

Mentoring also takes the form of “grooming” employees for higher positions and taking leadership roles with more responsibilities. This shows how the management is also involved in providing moral support and building the employee’s confidence. “Grooming” of staff to hold positions of power within an institution has been an especially prominent theme among minority groups. For example, scholars who study gender inequality have focused on why women seem to have so much difficulty reaching positions of power. Rosabeth Kanter’s classic study, *Men and Women of the Corporation* (1993), provides an excellent example of how and why it is critical for minorities—whether they are females or racial minorities—to not only be groomed and prepared to hold positions of power, but how it is also important for those already in the gatekeeper positions to give minorities a chance to hold a position of power. Kanter eloquently argues that when you are part of the numerical minority, you just have fewer chances to climb up in the company and it becomes this Catch-22 situation where if your “group” does not get its “foot in the door,” your individual chances of getting the experience for that position are lowered. In sum, Kanter advocates for people to give minorities the chance to get properly trained and be given a chance to show their competence. Therefore, another critical part of her analysis points to
the importance of networking in the acquisition of a position of power. BFB offers such a network to minorities.

BFB grooms their staff for leadership positions as seen in the example of Brenda Perry. Reflecting on her time working at BFB, Brenda--as Adwin did--realized that BFB has a nurturing environment that groomed her for a leadership role. Brenda explains, “It’s my first [time acting as bank manager]. So that was a step for me for me personally. I kind of felt it was too big a step. I didn’t think that I was ready but there were others that thought you are. It’s like you’ve been doing it a long time. You know so...I needed that push. And you know, I’m glad that somebody saw that in me and it was like you know, what you can, you can do this and it’s a been like a year and a half that I’ve been doing it and the bank hasn’t burned down yet!” This encouragement and “push” to build the staff’s skills as well as self-confidence is the hallmark of the kind of mentoring that BFB has traditionally provided to its staff. This takes faith on the part of the management, as well as time, effort and energy to mentor. As in the experience of Adwin, at other banks where the directive is to make a profit, in most cases, investing in professional development gets in the way of the profit motive.

In addition to the mentoring, the management also shows that they have respect and appreciate the staff through their generosity. The management is generous by giving staff flexibility in their work schedules in order to handle family matters or giving needy employees a bonus in advance. For example, one of the reasons why it was an easy decision for Adwin to leave his career at a major, private financial institution and come to BFB was because the management made it clear to Adwin that he would be able to balance his work and family life demands better at BFB since BFB gave him more flexibility. Adwin explains: “[A]t the end of the day,…it was an easy decision for me to come here. Um, the most important thing was that my Mum was ill and also knowing how…, [in] the conversation I had with [the President], you know, he said look, here, I mean you do better for you , you can have a little more flexibility to
attend to your Mum and I considered that…” Having more control over his work schedule was a very important factor for Adwin and it reflected the work environment and the culture of BFB that treated the staff with dignity because it acknowledged the hardships and challenges of the staff as people with lives outside of work.

**Relationship Management Meetings**

In the previous sections, I have shown how BFB actors have been trained how to use the LOR and how they have implemented the LOR culture through their interactions with customers. In this section, I focus on the weekly relationship management meetings at the bank to show how the training and mentoring is an ongoing activity that ensures that once the staff has been trained, the culture is maintained. I rely on data from my participant observation of the relationship management meetings to show what mentoring looks like currently and how the BFB actors work together as a team to build a LOR bank culture that continuously trains people to learn how to trust and build relationships in the community. In other words, the relationship meetings show how the LOR culture happens and is built by consensus. As I will elaborate on in Ch. 7, this process of “doing” LOR—specifically, how to form and use social ties to build trust and relationships—is important because allows BFB actors to open opportunities to clients with unconventional credit histories by using trust to mitigate uncertainty.

Perhaps the most hands-on mentoring and training I witnessed at the bank during my time there was in the relationship management group. In the relationship management meetings, Bruce Morrison headed a team of relationship managers who learn from one another on how to network, make sales and cross-sales, and build trust in new or existing relationships. These meetings showcase the active, ongoing building of shared knowledge as team members share with Bruce and each other their strategies in building social relationships. The meetings were approximately an hour long and are held every Monday at 10am in either the front or back conference room of the Mid-Wilshire corporate branch. Bruce, the four relationship managers
and I (as the intern) attend these meetings. Each manager had an area of expertise he or she focused on: black churches, the “Latino market,” non-profits or charter schools, etc. Sometimes the CEO, Paul C. Hudson or a branch manager attended as well if there is a special project that he/she is working on with a relationship manager.

The relationship management team was formed in 2006 to attract more business to the bank. In the words of Kia, a wealth manager, the team is a “sales team.” It was the bank’s proactive way of identifying and developing BFB’s new niches and ultimately looking for more clients, gain more deposits, thereby giving BFB money to fund the loan side of the business that had recently been doing very well. Kia elaborates:

Basically we are intended to be an outward sales force that is designed to bring in new clients and new business for the bank on the retail banking side…There was a decision from the executive team to really expand our presence in new areas and to also focus those expansions into some specific targeted groups. So we do a lot of church lending, but we weren’t really doing a ton of banking for churches, so the idea was let’s get some folks who can then now become the point person for encouraging our churches to actually bank with us and not just borrow…The idea was let’s not expect that people are going to come in. They haven’t been. They are not just going to see us down the street. It’s a competitive landscape now. So instead we have to begin to be more proactive and get out into the community and say we’re here and we have a lot of products and this is how we service you…We can service both your lending and your banking needs and also get the customer service experience that you wouldn’t get at a larger institution. Just because you’re not a number here at Broadway.

During the weekly meetings, Bruce trained the managers by providing systematic evaluation by providing reliable subjective evaluations of the clients the managers were attempting to court.

Typically, the relationship manager would review his or her “pipeline” from the previous last week, talk about “any deals that will probably close this week,” and share with the group the

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62 When the team was initially formed, each relationship manager was asked to choose an area of expertise to focus on. These areas of expertise or niches were predetermined by the executive, but the relationship managers were given independence and flexibility on how they wanted to define and approach the niche. The executives listened to the feedback of the managers and encouraged them to follow their findings while providing them with advice and support on how to approach the niche. For example, Mary Ann had chosen “non-profits” as her niche, but after some initial “feeling around” in the community, she ended up only focusing on charter schools. Others focused on black churches, the “Latino market,” and the entertainment industry.
strategy he or she is employing to bring a client to the bank. After sharing such information, Bruce and/or the other managers would provide any knowledge or advice based on their unquantifiable experiences, such as how to proceed with the deal. Sometimes, managers would share relevant information, advice or contacts, but Bruce acted as the head coach—giving and pointing out strategies for his team to pursue. He was able to read the “plays” of potential clients, keenly identifying whether the clients were merely giving his relationship managers the “run around” or if they were really serious. Sometimes he would tell them if it is “good” or “a waste of time” because he knows the people or business or location will not work out. Or, after listening to a relationship manager’s interactions with a potential client, he would say, “Maybe you should pull back, she just may come back to you [later].” He also provided additional contacts for the managers to pursue.

Since its purpose is to become an effective sales force, much of the time was spent on Bruce and the team sharing marketing or sales strategies. However, the team also counseled each other about “how to trust” per se using the relationship. Sometimes learning who and how to trust in building a relationship was key in making a profit and Bruce and Paul would often provide guidance on how to accomplish that. For example, when Kia first started working as a relationship manager, she asked the team for strategies on how to “close a deal.”

63 It is ironic that the relationship management group clearly focused on the profit aspect of the business especially because relationship banking used to mean social ties, but not more about loans, accounts, CD’s, etc. But because of the competitive landscape of the banking industry and BFB’s own shift to a publicly traded company, there was a heightened need to make a profit. They have always been a relationship bank, but with this new team, the word “relationship” has taken on a slightly different meaning. Oftentimes, “relationship” was used to mean getting clients to have more than one account with the bank, for example, a savings or checking account, along with a CD account and/or a loan. It would also mean getting “referrals and cross-referrals” and “sales and cross-sales.” Of course, the goal of the relationship manager was to provide excellent customer service so the client would remain loyal and happy with the bank, but “relationship” no longer meant having an organic, grassroots connection with the people in the local community who you knew because you lived and worked in the area and/or that your grandfather knew your client’s grandfather, etc. Nevertheless, the relationship managers indeed experience some of this “old fashioned” relationship banking in their work and the way in which the team helped build this culture together is what I focus on in this chapter.
started off by telling her basic marketing strategies. For example, Mary Ann told Kia that the most important thing is to be persistent. She advised Kia to “keep calling and ‘network the leads’”—for example, one charter school mentioned another charter school that had similar financial needs and Mary Ann called the other charter school right away. Dedrick tells Kia, “I use Bruce’s rule: you call 3 times and if you don’t hear back, then walk away. You can revisit them later, but work on other leads. And sometimes they’ll call you back out of the blue.” Finally, Bruce tells Kia, “Businesses generally have financial needs, but not really for individuals, so if you can pitch the right program to a businessman, you can get business. It’s tougher for individuals.” Alberto adds, “You really need to build their [your clients’] confidence. Then they start referring business to you. Getting to know them is really the key—then you get referrals from a lot of people.”

But part of knowing how to build their confidence required that the relationship managers knew when to trust and invest in a business partnership with potential clients. As Kia returned to the weekly meetings and shared her interactions with potential clients with the group, she began getting more subtle input on who and how to trust which clients would be worth investing time in. As mentioned above, relationship managers in part learn how to do this by receiving ongoing advice from their fellow managers, but more importantly from people like Bruce and Paul who have had years of experience living and working in the community. (Even though Paul only participated in the relationship management meetings intermittently, relationship managers often stopped by Paul’s office for advice. He often shared his contacts with the relationship managers as well.)

Bruce and Paul have years of experience and local knowledge in the people, location, leadership and health of businesses and history of the community so that they would know something specific about such things that is not quantifiable. For example, Paul would oftentimes be able to make a strategic decision about a transaction based on knowledge he just “knows” from
experience because perhaps the business or person had a loan with BFB in the past. Bruce would caution a relationship manager from investing time and energy in a certain business because of the location of the business. In one instance, he pointed out that a particular business was on the “edge of the market” and that “various market actors have promised to go in, but never have.” In another instance, an executive manager came to speak to the team about a proposed partnership with a mainstream bank. BFB was willing to work with this bank, but Bruce expressed skepticism about the mainstream bank’s proposal because he remembered how that bank abandoned the Crenshaw area years prior. The executive responded by admitting that the mainstream bank was indeed looking for a way to gain Community Reinvestment Act credit by working with a minority bank like BFB. Knowledge of such details helped the relationship managers learn how to network and trust.

One example of how Bruce would provide guidance to the relationship managers with his non-quantifiable, local knowledge is Bruce’s mentorship of Dedrick, the relationship manager specializing in black churches. For instance, Bruce could tell Dedrick right away to steer clear of a certain black church because of his knowledge of the history of that church’s finances and/or leadership. By sharing his relationship with other employees, Bruce kept relationships current to have more accurate assessment of the client. Furthermore, Bruce would often give Dedrick a list of contacts or tell him that he will “hook up” Dedrick with another church. He also provided Dedrick information regarding how to approach and work with those referrals. Bruce tells Dedrick that he often has already done a lot of “work in the back stage and lots happen before he gets it [the contact list] to him [Dedrick].” When Dedrick shares with the team that he has found it extremely difficult to even get a chance to talk to the reverends, pastors or ministers because of the various gatekeepers who keep him away, Bruce tells Dedrick to be patient. The church leadership has “all these layers to block you” from them because they are important and busy people. Bruce adds, “Churches are wine and dine,” so he suggested that the bank organize a
breakfast or luncheon to allow Dedrick to get church leaders together. Then Dedrick would have an opportunity to present a workshop on “how to strengthen their [the church leaders’] financials” as well as share with them the services the bank can offer them. In one particular meeting, Dedrick reported that a reverend he had visited during the week was interested in changing his church’s accounts to BFB, but Dedrick was taken aback when he witnessed the reverend lose his temper and harshly scold his staff. Bruce responded by saying that he wouldn’t blame Dedrick for giving up on this church because if the reverend really changed the church’s accounts to BFB, then he would “own” Dedrick—expecting that Dedrick return his phone calls immediately, and/or making demands. In other words, Bruce was doubtful that Dedrick would be able to build trust in that relationship.

By sharing their local knowledge, experience and strategies, the team provides mutual reinforcement of the LOR culture and the building of consensus of trust. The relationship management meetings demonstrate the operationalization of shared knowledge, a validation process that helps to ensure that their judgment is correct and that they are less likely to make a mistake. However, the relationship management meetings are not the only place where this validation process happens. For example, in Ch. 6, I discuss situations where Paul also engages in a validation process outside the relationship management team that helps to ensure the BFB actor’s judgment is correct and they are less likely to make a mistake. As we will see in Ch. 7, this building of trust is important because the information that comes from social ties is used to reduce uncertainty. Trust is built on knowledge that is non-quantifiable and the relationship management meetings demonstrate how BFB systematizes subjectivity based on their networks and their knowledge of the local community. As I will elaborate on in Ch. 7, contrary to popular belief, what this shared knowledge signifies is that subjective knowledge is not necessarily random; furthermore, it shows how social ties are not necessarily subjective. In other words, the systematic way of introducing “subjective” knowledge into how the relationship managers build
their social ties challenges the idea that what is considered subjective is “random,” while what is objective is systematic. Furthermore, the relationship management meetings also show how social ties are not necessarily subjective. The knowledge the BFB leadership shares with the team can be based on objective observations of the community. That is, the kind of data that comes from one’s intimate knowledge of the local neighborhood—for example, watching how businesses in a certain area have been poor for decades—can be “objective.” Simply because it is difficult to quantify does not necessarily mean it is subjective. In sum, these meetings provide concrete examples of how BFB actors manage uncertainty by managing relationships.

V. Conclusion

The feeling of being in a family and at home is important to the BFB actors because it motivates them to work together to achieve the bank’s dual mission of profit and community. However, making a profit, creating relationships and building networks do not happen automatically. BFB’s LOR bank culture teaches people how to “do good” and to do it well. This culture the BFB staff and management cultivate helps to connect BFB actors’ desire to give back with how to actually give back by systematically training and reinforcing the LOR. Specifically, the organizational culture of LOR creates habits, practices and inculcates the “calculated compassion” the employees use in their decisions so that they have a framework on how to operate the bank and support the bank’s mission. This is why the training and mentoring provided by the management is so important. With successful and ongoing training and mentoring, the mission of BFB is then embodied by the employees and the LOR culture integrates how people do things. Without the ongoing training that has helped reproduce the LOR throughout the bank’s six decades of operation, BFB would not have been able to survive with its dual goals of profit and community intact. As we’ll see later in the dissertation, if the staff is well trained, then they will work toward the mission of the bank using their professional expertise—to be bankers and activists—even if the staff does not agree on what to call what
they’re doing. The calculated compassion and the family feeling the employees build at the bank and in the community help to create and sustain the civil society and the networks that then act as “anchoring” mechanisms that diminish the chances of default. Under the LOR bank culture, the employees take the time to listen to the clients’ stories and this helps to build the networks and the trust needed to facilitate the employee’s use of factoring in “subjective” data in a supposedly “objective” mechanical loan evaluation process in order to extend opportunities to marginalized, but creditworthy clients.

See for example in Ch. 7’s Risk where two employees have internalized the culture differently so that even though the staff may have different views on what they’re doing, they are still consistently working on the bank’s dual goals. Thus, the bank ends up getting the same result even though the staff may not think or understand things the same way. This is a reflection of the bank culture.
Chapter 6 The “Sweet Spot”: Flexibility, Leeway, and Gray Areas

We have to be very, very careful about who we lend to because our heart is great.
Adwin, Staff

We can do a lot of different things for the minority community that other banks just won’t do because…we customize our products to fit the needs of our clients. So I think that’s interesting because with a lot of banks it’s either black or white. [For other banks,] [t]here’s no gray, there’s nothing in between and we have a lot of gray, in-between’s.
Serena, Branch Manager

I. Introduction

Thus far in the dissertation, I have discussed programs at Broadway Federal Bank (BFB), such as Second Chance Savings, that reflect the bank’s culture of calculated compassion and contribute to the bank’s mission of achieving the dual goals of profit and community. In this chapter, I turn to gray area loans because they are a principal strategy for BFB actors to reinvest in the community. Gray area loans allow BFB actors to use their discretion to help reinvest in the community—discretion that is made possible due to the logic of reinvestment (LOR). In one of my interviews with Paul C. Hudson, the Chief Executive Officer (CEO), he discusses the centrality of providing loans in the achieving the goal of reinvesting in the community as part and parcel of BFB’s overall mission to provide people with second chances:

On the loan side, we do a lot of work with people that may have credit problems…but I don’t think we have any institutionalized programs. Everything else we do is kind of like on a case by case basis. We’re trying to help people like Minority AIDS Project. They may have—not strong financials or the charter schools may not have strong financials, but they have good contracts, so we may help them out with cash flow issues, based on their contracts, but that’s another form of—what Second Chance Savings is, is just people that have had problems, we try to get them back into the system. Some of the stuff we do on the loan side is that same sort of thing. They couldn’t go to a traditional bank and get this kind of financing, but…it seems to me that there ought to be a way to find financing for a charter schools and non-profits and churches even though they don’t fit the traditional banking models…But we don’t have a name for the program, we don’t advertise it, I can’t say that it’s as simple as the ChexSystems situation.

The loans that do not fit traditional banking models are what I refer to as “gray area” loans. “Gray areas” are the marginal situations that do not fit the mold or uniformity that is set by the
mainstream financial industry. In other words, they describe the non-conventional situations where the documentation or other standard factors mainstream banks use for evaluating risk are weak. Often, such cases are rejected in mainstream financial institutions because they do fit the “cookie-cutter” approach and therefore are considered too “risky” or not profitable enough for mainstream institutions to invest in. Gray areas are important because they provide opportunities for BFB employees to use the LOR and their discretionary powers to share privilege with the underserved. Thus, even though BFB may not have an institutionalized loan program that focus on getting people “back into the system,” the bank’s loan niches focus on community organizations that are considered “gray areas.”

BFB is mired in “gray areas.” BFB actors chose to be structurally involved in gray area loans by developing their loan niches in community-oriented organizations, such as charter schools, black churches and other non-profit organizations. As I will elaborate below, the actors at BFB were “pushed” into such gray areas in part because they could not compete with the large financial corporations in traditional loans such as single family mortgages, but they also were “pulled” into such niches because community members needed the flow of credit in those areas. By focusing on these gray areas, we see the BFB actors’ strategies and daily struggles in their attempt to serve the marginalized in a capitalist system that more often than not makes little room for such concerns.

The prevalence of “gray areas” at BFB as seen in its structure and in everyday practice in making loan decisions show how the BFB employees are committed to reinvesting in the community. In order to stay committed to and actually carry-out gray area loans, the BFB staff and management must utilize their LOR. This is because although focusing on non-profits can be a smart and profitable business strategy, loans with such “gray area” organizations also comes with costs. In other words, participating in gray areas is a double edged sword for BFB because on one hand, they allow the bank employees to have more opportunity to help marginalized
people who otherwise would likely be (or already have been) rejected by other banks. On the other hand, sometimes it is their work in such “gray areas” that inhibit greater profit margins and growth. This is because the time, effort and energy it takes to undertake gray area transactions often exceed that of standard loans. Hence, BFB arguably “loses out” on its opportunity costs to pursue more profitable loans. So how do the employees of BFB balance their desires and dedication to help the community while meeting the ongoing pressures of higher profit margins? The answer lies in the LOR bank culture. The BFB actors use their LOR judgment and discretion to structure gray area loans as a way to prioritize the well-being of the community in face of mounting economic pressures of the banking industry. On a structural level, the prominence of “gray areas” is seen in BFB’s loan niches. On a practical level, we can see BFB’s engagement with gray areas in their daily underwriting decisions as well as their staff’s dismissal of the mainstream industry’s practice of immediately reject marginal cases that do not fit the conventional standards. Instead, they take into consideration those with special circumstances or those may just need a second chance—even if this may cut into the bank’s profits or the staff’s own individual paycheck (e.g., making less commission). Time and time again, the employees rely on their LOR in making structural and everyday decisions in loans when they could have ignored the effects of their actions on their local community—as many other institutions have done. Even though they may prioritize profits at the end of the day, their use of the LOR is a testament to their commitment to the community and the mission of the bank. This chapter shows how and why this happens.

II. Shifting from Single Family to Multi-Family and Commercial Loans: Push and Pull Dynamics

Historically, BFB has always been doing “gray area” loans—loans that were seen to be too risky for traditional mainstream banks to take on, such as giving loans to African Americans when no other bank would. Since its establishment in 1946, BFB has prided itself on their focus
to provide single family home mortgages to African Americans in order for African Americans to realize the American Dream of owning their own homes and to build wealth. But as the times changed, the actors at BFB made a conscious and at the same time heart-wrenching decision to stop originating single family loans, and instead focus on the type of loans they are currently engaged in: commercial and multi-family properties loans. The commercial loans BFB focus on are business loans that are secured by real estate and borrowers can use rent from tenants to qualify for a loan. The loans for multi-family properties (or “multi-family loans,” as they are commonly referred to by BFB bankers) are a particular product type of commercial loans that are made for investment purposes and include multi-family units such as apartment buildings.

In the early 2000s, the BFB management went through a contentious debate before making this decision: on the one hand, some of the leaders thought it was financially unwise and unprofitable to continue providing single family mortgages in an industry that thrived on a model that favored the bulk sales of such loans. On the other hand, some of the other leaders believed that BFB would be straying too far from their original commitment and connection to the local community if they stopped originating single family loans. The historical context of how BFB came to focus on commercial and multi-family loans instead of single family loans is significant because it shows the tension within the management who attempt to achieve the dual goals of profit and community. Ultimately, this context will show that the BFB leaders’ decision to invest in the gray area loan niches (i.e., loans to “gray area” borrowers and organizations) was both in response to the pressures of the financial industry and a self-directed and creative choice—a choice that carved out discretionary space for BFB actors to extend second chances to the local community.

By the late 2000s when I was conducting my research, most of the loans BFB was involved in were in commercial and multi-family loans. BFB had been pushed out of the single family market when corporate giants like CountryWide and IndyMac came in and engaged in
bulk and subprime sales of single family loans (i.e., in origination and refinancing). The decision to shift from focusing on single family loans to commercial and real estate loans was not an easy one—the management had to wrestle with the implications of the shift given the bank’s mission. But as explained by a bank executive in an interview in 2010, BFB had no choice because changing their focus to commercial and multi-family loans was the best way to reinvest in the community given the circumstances:

We were focused on apartment residential lending, primarily and secondarily, other commercial lending and so forth. Largely because we didn’t focus so much on the single family residential because the programs have become—during that period of time—so loose and flexible in their underwriting that we said, that we couldn’t compete and couldn’t make a profit in it. So we focused in an area where we had better margins and could make better profits without taking the enormous risks that all the subprime lenders were doing. We weren’t about to do 100% loans with no mortgage insurance. That’s very risky as we now seen prove out.

But it was not just the subprime market and the mortgage giants that squeezed BFB out of the single family market; there were also changes in the financial industry that pressured BFB out of that particular market. The banking industry had become increasingly competitive since the 1970s and the rise of the secondary market allowed banks to transfer risk. Furthermore, as federal regulations became more effective in thwarting discrimination in the post-Civil Rights Movement (CRM) era, more mainstream banks did more business in areas such as South Los Angeles (SLA) and even began giving loans to unconventional “gray area” organizations such as churches. For example, in a 2007 interview, a longtime BFB manager describes how mainstream banks began to curb their redlining practices in the mid to late 1990s when the federal agencies began closing down banks:

I don’t think it’s still the case like it was back then because now there are a lot of regulations about redlining and the OTS [Office of Thrift Supervision] and FDIC [Federal Deposit Insurance Corporation] are very, very involved in making sure there’s no redlining because they’ve opened up banks to fines and penalties if they can identify a trend of redlining. And so if there is, it’s not as obvious as it used to be…I think they fined Long Beach Savings for redlining. And I think that started getting people’s attention—that this is not going to be tolerated anymore.
But at the same time, she believes that BFB business suffered once other banks began competing in the area:

It [competition from mainstream banks] certainly affected our single family portfolio because we could not compete with Countrywide--[and with] some of the larger institutions, like Home Savings making loans because we were so small. And so that did affect the institution and that’s why the reason why Broadway had to go find another niche that they could compete with. And that’s primarily why they started to go [after] the multi-family loans... We’re back to making church loans because what we’ve found is that even the East West and other banks are now making church loans...whereas, they were not making church loans years ago. Broadway Federal was one of the few institutions that would make church loans and all of a sudden I looked up and I would see a loan [get paid] off and I go and check the history and who made them a loan? It would be East West, it would be Bank of America, it would be some private investors, which was actually unheard of. [In the past] they weren’t doing business loans in South Central, let alone make a loan to a church for the fear of having to foreclose on the church and the bad reputation that would come out of that. But all of sudden, they found out that it was good business...I started noticing this probably in the ’98, ’99. And Broadway’s been doing church loans for, oh, God, since they’ve existed!

One main reason why BFB does residential lending was because BFB is a federal thrift charter, which means that under the Qualified Thrift Lender Test, a certain percentage of the bank’s assets and loans have to be in residential lending. Residential lending can be single family (one to four units) or multi-family (5 units and up). This test ensures that the bank is continuing to serve the purpose of the thrift charter. The bank had decided to sub-contract their single family loans so they could focus on multi-family residential and commercial loans because giant corporations such as CountryWide had cornered the market in part due to their offers of subprime loans that were easier and less expensive loans to obtain than traditional loans. (The BFB management had the insight into the instability and risk of subprime loans and stayed out of them. Specifically, BFB’s management did not want to put the bank at risk and they under the logic of reinvestment, they did not want to offer unsustainable loans that were not going to help their customers build wealth. Finally, as I will discuss further in the next chapter, as a portfolio lender, BFB was not going to sell off the exposure of the risk they originated.) Eric, the Chief Loan
Officer (CLO) I interviewed in 2010 explains his rationale for deciding not to have single family residential loans in-house anymore:

I brought it [the mortgage company BFB sub-contracted with] in because we still needed to serve our customer base and it wasn’t—partly it was I believed that it was the best thing for the bank for a variety of reasons. And partly it was because I had limited resources, limited human resources. And you can’t do everything well. So we had to pick something to focus on and do it well. And they brought me in specifically because they had already picked the primary focus to be around multi-family. I just saw the single family as getting in our way of doing that well and it was.

…And so, for me, if was I was going to succeed in fixing the department and making it successful and getting our volume up, I needed to focus our energy and focus our resources. And so, the problem I faced in the beginning was, ‘How am I going to eliminate the fragmented attention of my staff?’ In other words, I had a staff that was doing a commercial loan, a church loan, a multi-family loan, a small business loan, a residential single family loan, an apartment loan, they’re doing all these different things and the truth of the matter is, these are all individual specialties. And I’m sorry, but trying to do this with the same processor, the same underwriter, the same funder means that we’re not doing any of it well. A severe lack of focus and so for me it was a pragmatic thing as well as I honestly believed that the single family residential market was inflated even in 2002, believe it or not…But even then I thought it was over inflated and I thought that the underwriting was ridiculous. You shouldn’t be making these kinds of loans that they were doing. But Wall Street was buying them, so I said, ‘Let’s not play that game.’

But Eric had to deal with ideological and community-focused objections to his plan to outsource the bank’s single family home mortgages—reflecting the tension of profit and community that permeates from top to bottom of the bank. Some on the Board of Directors were concerned about losing touch with the needs of the community members by outsourcing their single family loans to another company. Eric explains:

The problem I had was: how was I going to convince our Board of Directors who were stuck on this mission of ‘Hey, we make house loans in our community since 1946’? How was I going to convince them to get out? And so the only way that I could get my team focused is if I could figure out some way to outsource the residential lending…The only way that I could get them to do this, that I come up with is that I needed to find some group that we can outsource our single family to and still serve our customers because the issue of [one of the Board members] was ‘How are we going to continue to serve our customers and give them home loans?’ So I had to answer that…
I said, ‘Look, you are concerned with serving our customers and getting them home loans, let me tell you something. We do not serve them. We only have one, two, three programs and today’s buyer or owner of a home, whether it’s a purchase or a refinance, actually needs the options from A to Z and we barely have A and B, let alone everything all the way to Z. By having this partnership, they’ll offer them every possible loan that’s available on the market. That’s much better because we can’t go set up the relationships because we don’t have the volume to set up the broader range of products. So if you think we’re serving them, we’re not. We’re doing them a disservice because a lot of them come to us thinking, ‘Oh, it’s Broadway. They’ll help me.’ But we’re very limited in what we can offer. So they would actually be doing better at CountryWide or B of A [Bank of America], or Washington Mutual or Wells Fargo or any number of mortgage brokers, actually. They would be doing better than coming to us. So if you think we’re serving them well, we’re not. What we’re going to offer them in a partnership is a broader range of possibilities and loan programs.

To some of the Board members, giving up the single family niche symbolized a shift in priorities in fulfilling their mission to strengthen the community by supporting homeownership. Because their bank was already squeezed out of the single family market and they had already decided to focus on commercial banking when they hired Eric, actually having to also give up on originating single family loans at the bank may have seemed to compromise the bank’s tie to community members too much. However, Eric believed that had BFB not outsourced their single family loans, it would have detrimental effects on BFB’s relationship with the community and it would have hurt their profits.

I mean that was part of the problem with the single family thing that kept rearing its head. They’re [the Board of Directors] like, ‘Our mission! Our mission! Our mission!’ And I’m going like, ‘Yeah, but you know…’ And I also realize that you think that you’re serving the mission by this as I mentioned earlier at the beginning when I got there, and you don’t realize what a disservice you’re doing to a lot of your customers who come here thinking you’re going to serve them a certain way and get frustrated. You actually, you actually waste their time, their money and they’re frustrated and not happy with Broadway at the end and you’re losing customer satisfaction and they trust you and you lose that trust. It’s going against the mission.

From Eric’s perspective, by not offering the variety of loans that was available on the market at the time through their sub-contracted mortgage company would result in losing the community’s trust in BFB as a stable and honest institution that provides reasonable loans for the community.
and that would have hurt the bank employee’s relationships with the community members. (And it is the social capital that the bank employees gain from their networks that help facilitate the bank’s mission to reinvest in the community. It is this social capital that facilitates the trust and the “gut” feeling that helps employees decide if a transaction is a low risk and profitable one.)

But in the end, Eric and the Board’s decision to outsource single family home loans turned out for the best. From Eric’s perspective, the real estate bubble that the Wall Street Journal had already started talking about in 2002 had begun to burst in 2006 and by 2008 had become what we now call the subprime crisis. Eric reflects on what would have happened had BFB decided to keep the single family mortgages in-house:

It wouldn’t have been a good thing…It would have hurt profits more by us trying to be in a business that we weren’t even equipped to be in because we don’t have A to Z programs and the crazy 100% financing with horrible credit and…”We never would have gone to that level of underwriting” so we would have been out there marketing and having no results for it so the biggest cost would have been the opportunity cost of putting our time and energy into something that we can’t even succeed at.

The Board and senior management at the bank had various pragmatic reasons for why they should outsource the single family mortgage loans. For one, the bank was being squeezed out of the competition by mainstream financial organizations partly because they refused to use what would prove to be highly risky underwriting standards in a single family real estate market that was already over inflated. Furthermore, being a bank with a small staff, the bank lacked resources to juggle various types of loans. But in addition to these pragmatic reasons, the Board of Directors and the senior management at BFB also had to wrestle with ideological reasons for outsourcing the single family mortgage loans. The ideological battle between Eric and some of the Board members on what type of relationship with the community provides the best way to assist community members in their quest for homeownership highlights the process and rationale the employees at BFB struggle with on a daily basis.

The ideological battle between Eric and the Board is a story that is just as important as
the pragmatic one because it highlights how the tension of profit and community is constantly in the minds of the leaders and staff. It also shows how the pragmatic, profit driven side takes priority at the end of the day. The priority of the Board and senior management is to ensure that their business transactions reflect the “safe and sound” principles. Since the stability of the bank was of the utmost importance, the Board and senior management never engaged in even one subprime loan. It is also important to understand the context of how and why BFB leaders decided to outsource the single family mortgages and focus on multi-family and commercial loans because it reveals how BFB came to develop the other loan niches they have—all of which are in “gray areas.” Being so engrossed in “gray areas” is a reflection of how they must respond in the banking industry as a small bank, but also reflects their commitment to provide loans to people who are marginalized from mainstream banking and/or are seeking to improve the community. As I will elaborate in Ch. 7, this example of the BFB leaders’ struggle with the decision of leaving the single family mortgage business is a good example of BFB fighting disembeddedness. That is, by giving up on single family mortgages, it seemed as though BFB was giving up on the embedded, social ties it had with community members in order to follow the mainstream industry’s trend of disembeddedness. The mainstream industry has disengaged with the local community in search of bigger profits outside their geographical locations. To some of the BFB leaders, by giving up on originating single family loans, BFB would be doing just that. (See Ch. 8 for more.)

In spite of BFB’s specialization in mortgage loans, BFB bankers still attempt to provide opportunities to small business owners. The bankers are aware that sometimes those loans secured by personal real estate are used to finance small businesses or even consumer products. This is important because it illuminates the various ways how BFB actually enacts its LOR in the community. BFB never has had a substantial small business lending practice that involves loans for businesses other than real estate, such as those to start a restaurant, pay for a store’s inventory,
or buy an automobile. A BFB officer estimates it at less than one percent of BFB’s loans. One reason why BFB has never had a small business lending practice is because such loans are risky. But because small business loans are needed in the community, BFB bankers attempt to provide them and reduce the risk of providing such loans by securing them with real estate. In such cases, the borrower obtains the loan from BFB by offering the property as collateral for the loan. As one BFB officer explains, the borrower will then receive the money and the lender holds a recorded deed of trust, thus “providing the trust between the parties and securing the repayment. If the borrower defaults, the rule of law will force performance, either by monetary repayment or forfeiture of the secured property (collateral) to the secured party (lender).”

Another reason is because most of the loans to small businesses are secured by real estate and as both the CLO and CEO have attested, BFB simply has not had the resources and expertise to focus on programs that would be considered less risky such as the U.S. Small Business Association (SBA)-guaranteed loans. Former CLO, Eric, clarifies:

To do it right requires a department that really knows what it’s doing in small business. You really need to understand it, and have a unique expertise in that area. To bring that expertise in and get it started would require making a reasonably large investment in personnel…We’re small enough that it’s hard to justify…you’d have to make an investment for at least a couple of years or more where you’re paying these people to build it [the small business loans department] before it actually crosses the threshold of profitability. So it’s a sunk cost in the beginning and that hurts your PNL [Profit and Loss] and therefore, your earnings that you report to shareholders.

However, in some respects, BFB has been engaging in loans for small businesses in an indirect way. For example, many of the commercial loans are owner-occupied commercial loans where the business owners own their property that they operate out of. As Eric explains, “So, it’s related to small businesses, but it’s not a true small business loan [because] we were doing it strictly as [a] real estate [transaction].”

Furthermore, with its main focus on single family mortgage lending for many decades, it has also indirectly funded many small businesses in the community without placing the bank at
risk by giving business loans, which are on the whole riskier than home mortgages. Eric explains, “In many cases we would provide loans, secured with single family residences, wherein the use of the funds (proceeds) of the loan was being used to invest in the borrower's business. In many cases there were no other places for these borrowers to go to get this financing...This created a source of business capital for many customers of the bank.” As CEO Paul C. Hudson explains, “Minority borrowers often cannot qualify for conventional business loans because of discriminatory redlining practices, which results in minority borrowers being required to put up collateral for business loans. In many cases, the only acceptable collateral that minorities can offer is real estate.” He estimates that roughly in 20-30% of the time borrowers who receive loans from BFB use their proceeds from real estate loans for business purposes. (This estimation includes church borrowers who use real estate loans to fund their religious business.)

III. The “Sweet Spot” of Profit and Community: How Loans to Broadway Federal Bank’s Niches in the Non-Profit World Support the Community

Pushed out of the single family mortgage market by mainstream competitors, BFB leaders made a difficult, but calculated jump into multi-family (i.e., apartment residential), commercial lending and the non-profit loan niches. As Dymski (1999) points out, ethnic banks are often one step ahead of mainstream banks in identifying new niches in the market because as community banks, they are the best at identifying and understanding the needs of the local community. As seen in Paul C. Hudson’s quote above, the leaders and staff at BFB not only understand the challenges of their community, but they are willing to give a second chance to those who are rejected by mainstream organizations and/or have made mistakes in the past. As discussed in previous chapters, the employees have extensive knowledge of the community because they grew up in the community and/or through their involvement in community—for example through volunteering or serving on the Board of Directors of local organizations. Through this knowledge and continued relationship with local leaders of the community, BFB
developed non-profit niches that respond to the community’s needs. In the late 2000s, BFB had added two new niches focusing on non-profit organizations to their traditional niche of providing loans to black churches. As with BFB’s other loans, BFB had a very low foreclosure rate with churches. The two newer niches were the charter school niche and the non-profit organizations niche which aimed at providing services for the working class. Common in all these particular niches are that they “do good” for the public and have unconventional financials. Therefore, they are often considered too risky or providing too small of a profit for mainstream banks to work with. But these non-profit niches are critical for the achievement of BFB’s dual goals because they “hit the sweet spot” by providing the BFB staff and management chances to become profitable while supporting community based organizations.

Black Churches and Charter Schools as “Sweet Spot” Niches

BFB has been giving churches loans—most notably to black churches—since they opened their doors in the mid-1940s. But in general churches still have a difficult time getting loans from mainstream banks because as one BFB executive explains: “No one wants to foreclose on God. It’s bad PR [public relations].” In 2007, BFB gave churches roughly 16 million dollars—used for the purchasing of churches, rehabilitation, and investment in schools or other church programs. As a bank executive explains, church loans, like the other non-profit niches BFB is involved in, is a:

place where the ideal, to some degree for Broadway Federal Bank, converges...Where the ability to both make safe profitable loans and growth and satisfying investors and profitability, which also satisfies regulators who want to see that you’re doing well. Um, and the mission of serving the underserved, or serving the community in other ways. Um, it’s where they converge and where those converge, that’s where...the tension and stress between mission and business, where the tension can kind of lift and you feel really good that you’re accomplishing both. That’s the ideal. And not just in church loans, there were a lot of different things--charter schools...But the tension lifts when you can find that sweet spot where mission and profitability converge and they’re tightly juxtaposed to one another. That’s the perfect point.

A senior manager explains both the practical and ideological reasons why BFB has developed an
expertise in providing loans to churches:

The church loans are an area where you [BFB] can do some of the larger loans, and because it’s a niche market that not all banks want to get into. Generally speaking, you can – just the market will bear a higher rate of interest because there’s not the same competition for that business. At the point at which other institutions all want to get in that business then the margin will shrink, but as long as others don't want to get in it, that’s an area where we can both be mission oriented in serving the community by lending to churches who need it, and churches are an integral part of community. And so, by supporting them, we’re supporting community because the people – that’s part – that is part and parcel to a lot of people’s community and how they connect with one another. And it’s a big part of the African American community. The churches, historically – are – have been a place of – churches were a big part of the civil rights movement. They mobilize people, and people come there and connect to one another. It’s a place of community and connection.

Funding charter schools is a newer niche for BFB and this niche also serves as a “sweet spot” for the bank. Since the Charter Schools Act of 1992 passed allowing the establishment and operation of charter schools in California, the charter school movement in California has picked up momentum from concerned teachers, administrators, civil rights activists and philanthropists alike. Such leaders have been attempting to provide a better public school education for children. Charter schools are hybrid organizations: they are public institutions that receive some public funding, but they also rely heavily on private grants, etc. Therefore, they run on a business model and often have trouble with cash flow. Because charter schools are a relatively new type of entity and banks generally are not familiar with how they are run, mainstream bankers often do not provide loans to charter schools. However, charter schools are also integral to the community because in an area where public schools are severely underfunded and neglected, many children have greatly benefited by a charter school education. But as one BFB client says: the charter school movement also represents a new wave of community activists who see a quality education as the new front of the civil rights movement. Charter schools became a niche for BFB because there was an unmet demand for funding in charter schools in the SLA community.

BFB started working with charter schools in the early 2000s. In 2007, BFB began devoting and cultivating their charter schools niche and by 2008, BFB had established itself as a bank for
charter schools in the Los Angeles area. Paul C. Hudson explains that the decision to go develop the charter school niche was a business strategy that fit the mission of the bank. Hudson had identified a few possible niches for the bank to develop and a wealth manager “tapped into that sector and started meeting with all these charter schools and you know, we started doing more charter schools type deals and helping charter schools and decided that it was a niche that nobody else was in yet.” But Hudson was interested in growing charter school lending as a niche because he had experience working with a charter school a few years prior. Furthermore, he had always been interested in supporting quality education in SLA. BFB’s work with charter schools is not surprising because as mentioned above, as an ethnic bank, BFB’s ability to be on the “cutting edge” and identify the needs of the community before mainstream banks is well documented (Dymski and Mohanty 1999). But what I did find surprising was the amount of genuine care and interest the BFB leaders and staff had for educating students--and I was not the only person who noticed. As discussed in the previous chapter, Deloris Washington, Director of Unity Charter School, described how important it was for her charter school to have a caring ally like Paul C. Hudson in her school’s quest to bring quality education to the children of SLA.

During my internship, I visited numerous charter schools with Hudson in SLA and I watched and listened to the questions that he asked administrators and staff. Indeed, Hudson made sure that the loans to these schools were “safe and sound,” but he also took the extra steps to understand the philosophy and the quality of the schools. Hudson’s humility and commitment to bringing a quality education to the community can be seen in how he described how the bank first got involved with charter schools: “The first charter school we got because we were in the community and a start-up charter school wanted to use a community bank. And as they grew, they came to us for stuff—we were the only bank they knew. We started doing loans for them.” In a later interview with a bank branch manager, I happened to learn more details of the tenacity and extra effort that Hudson and the staff had to go through to provide such loans. During my
interview with Serena, a bank branch manager, I had asked if she thought BFB played a unique role in the community and she explained how BFB did play a special role: "We can do a lot of different things for the minority community that other banks just won’t do because—for instance with our loans...we have custom loans so we customize our products to fit the needs of our clients. So I think that’s interesting because with a lot of banks it’s either black or white. There’s no gray, there’s nothing in between and we have a lot of gray, in-between’s.” When I asked her to elaborate, she brought up BFB’s first charter school client as an example—the same one Hudson had mentioned. Serena said that the Community Education Foundation (CEF), which operates multiple charter schools in the SLA community, was an example of a client that BFB was able to serve when other banks were unwilling to. Serena explains:

When they first started their charter, they couldn’t get loans from anybody...Now they are huge. They just had a big special on Fox 11 News about the new schools that they’re opening, the Thomas Griffith School and the Tom Bradley School...And I remember speaking to the CFO [Chief Financial Officer]...[a]nd he was saying that no-body would help them. And they’re Caucasian...but no one would help them because they [the other bankers] were saying ‘You put schools in South Central? No, it’s never going to work. No, the kids aren’t—No, no—’

When I interviewed Serena, CEF schools were ranked number four nationally among charter schools:

They [the CEF management] went to Paul and asked Paul for a loan. And Paul was like, ‘...Oh, I don’t know if we can do this. I don’t know if we can do as much as you need...’ And then so Paul went and they showed Paul the plans...[of what] they were doing and Paul said, ‘Okay, look,...I can’t give you everything that you’re asking for, but this is how much I can give you.’ So basically, Paul gave them a loan that nobody else would give them and now they have all these schools... And Charles [CEF’s CFO] always tells me, ‘Even though your accounts, I mean, you guys are trying to catch up, you know, with the services that you offer, I would never take my accounts from Broadway Federal Bank. So they have at least 10 accounts with us. They’re like, ‘We would never [take our accounts to another bank]—it’s like, ‘I don’t care how many mistakes you guys have made...’

Serena admits that when she first started working at that branch, the CEF management was getting “a little upset” because there were some issues with some of the bank’s services. For
example, there was some trouble with using the bank’s on-line services when the bank was transitioning to a new system at the time. But CEF remained loyal to BFB as Serena and other staff did their best to provide personalized attention to CEF.

Serena’s description of the loyalty of this charter school’s management reflects the effort and commitment that Paul C. Hudson and the BFB staff have made to ensure a “safe and sound” loan to a non-profit organization with a worthy cause. However, Eric admits that it can be frustrating when he is trying to maximize the profits of the bank while maintaining a commitment to the welfare of the community:

These little things that would come up that are community-based or mission-based sometimes are a nuisance. The charter school that needs a $30,000.00 line of credit can be extremely difficult because, usually, it’s really hard to justify the finances. It’s really hard – the information that comes, you have to piece it together, and you have to keep begging for it, and it can be much more difficult than doing a nice million and a half, $2 million loan on an apartment building that just sort of moves through smooth like butter. Just easy to do, right? And yet, that’s [helping organizations like charter schools is] right in the mission.

And as we will see below, this is not an isolated example of the extra effort the staff and management at BFB put into loans. They are difficult and time consuming.

The Difficulties Associated with Non-Conventional Loans to Non-Profits

Most non-profit organizations share a similar profile: they “do good” for the public, but they have unconventional financials and therefore are often considered too risky or providing too small of a profit for mainstream banks to work with. Therefore they need a bank that will take the time to understand their particular structure. They may also have cash flow problems, but many have stable funding from grants or the government, so they often are not as risky as they may seem to banks such as BFB. One example is BFB’s loan to a non-profit child care center. Like churches, child care centers often share similar issues with non-conventionality in their financials. But how and why exactly is it more difficult for non-profits to secure loans? One of BFB’s clients, Fred, a board member for large child care center in SLA, explains why loans to
non-profits, such as state funded child care centers, are in the “gray area” and the important role BFB plays in assisting their operation:

BFB recently became the child care center’s other bank. BFB has provided us with something that we have needed for 31 years and that is a line of credit during the summer months when the state legislators haven’t approved the budget so we didn’t get our funding. Historically, we have funded ourselves. And we had always been looking for a bank, but before Broadway came along, no bank or no bank that we had been researching could understand how we could get funded and how we could get a line of credit until we get our funding in the fall.

One of the neat things about BFB is their faith based lending. They provide these for these types of non-profit organizations to get loans that you can’t otherwise get because under normal situations you can’t get these types of loans unless key people have to guarantee the loan. And so, very few banks are willing to do that. But in our situation we’ve always had the right to a revenue stream from the State of California, which I’ve always felt could be assignable to a bank as collateral and that’s exactly BFB did. And so when you look at the role of a community bank, that’s typical of one bending over backwards to accommodate the local needs. This is something that the big banks wouldn’t do—it’s just not conventional lending… We had to go through quite an exercise to show them [BFB] how we’re structured and when we have spending shortfalls, how that’s funded and that the shortfall and the spending that we do in some years that appear to be a deficit spending was funded from prior years based on key business decisions that allowed us to make a nominal profit.

It is difficult for a bank to recognize the revenue from the State of California because the child care center is still classified as a small business, even though the center is solely supported by the State. Because of their classification, banks normally ask the key organizers to put up collateral. However, the non-profit child care does not have collateral. Thus the mainstream banks the child care center has approached for loans would ask the principal organizers of the child care center, such as the board of directors, to put up the collateral. But the board members are not the real owners and they did not want to put their own personal assets as collateral. BFB was flexible and took the time to understand the particular circumstances of the child care center and gave the center the loan they needed. Thus, even though non-conventional, gray area loans can be a “sweet spot” where BFB’s dual goals of profit and community converge, they are often difficult to do.
In spite of BFB’s specialization in mortgage loans, BFB bankers still attempt to provide opportunities to small business owners. The bankers are aware that sometimes those loans secured by personal real estate are used to finance small businesses or even consumer products. This is important because it illuminates the various ways how BFB actually enacts its LOR in the community. BFB never has had a substantial small business lending practice that involves loans for businesses other than real estate, such as those to start a restaurant, pay for a store’s inventory, or buy an automobile. (One BFB officer estimates it at less than one percent of BFB’s loans.)

One reason why BFB has never had a small business lending practice is because such loans are risky. But because small business loans are needed in the community, BFB bankers attempt to provide them and reduce the risk of providing such loans by securing them with real estate. In such cases, the borrower obtains the loan from BFB by offering the property as collateral for the loan. As one BFB officer explains, the borrower will then receive the money and the lender holds a recorded deed of trust, thus “providing the trust between the parties and securing the repayment. If the borrower defaults, the rule of law will force performance, either by monetary repayment or forfeiture of the secured property (collateral) to the secured party (lender).”

Another reason is because most of the loans to small businesses are secured by real estate and as both the CLO and CEO have attested, BFB simply has not had the resources and expertise to focus on programs that would be considered less risky such as the U.S. Small Business Association guaranteed loans. As former CLO, Eric, explains, “To do it right requires a department that really knows what it’s doing in small business. You really need to understand it, and have a unique expertise in that area. To bring that expertise in and get it started would require making a reasonably large investment in step and personnel assistance…We’re small enough that it’s hard to justify...you’d have to make an investment for at least a couple of years or more where you’re paying these people to build it [the small business loans department] before it actually crosses the threshold of profitability. So it’s a sunk cost in the beginning and that hurts your PNL.
[Profit and Loss] and therefore, your earnings that you report to shareholders.” However, in some respects, BFB has been engaging in loans for small businesses in an indirect way. For example, many of the commercial loans are owner-occupied commercial loans where the business owners own their property that they operate out of. As Eric explains, “So, it’s related to small businesses, but it’s not a true small business loan [because] we were doing it strictly as [a] real estate [transaction].”

Furthermore, with its main focus on single family mortgage lending for many decades, it has also indirectly funded many small businesses in the community without placing the bank at risk by giving business loans, which are on the whole riskier than home mortgages. Eric explains, “In many cases we would provide loans, secured with single family residences, wherein the use of the funds (proceeds) of the loan was being used to invest in the borrower's business. In many cases there were no other places for these borrowers to go to get this financing...This created a source of business capital for many customers of the bank.” As CEO Paul C. Hudson explains, “Minority borrowers often cannot qualify for conventional business loans because of discriminatory redlining practices, which results in minority borrowers being required to put up collateral for business loans. In many cases, the only acceptable collateral that minorities can offer is real estate.” He estimates that roughly in 20-30% of the time borrowers who receive loans from BFB use their proceeds from real estate loans for business purposes. (This estimation includes church borrowers who use real estate loans to fund their religious business.)

IV. The Multi-Family Loan Niche: “Hitting the Sweet Spot” Another Way and the Roles of Stories, Creativity, Trust in Providing Leeway

At times where BFB cannot choose the “perfect” client or organization (e.g., the community member who is need of a loan or a non-profit organization) to provide a loan, the employees at BFB focus on doing what it can to help the disadvantaged and the community indirectly through loans. In this part of the chapter, I discuss the strategy that the BFB employees
use to achieve the dual goals by focusing on how they structure multi-family (i.e., 5 units and up) loans. The multi-family loan niche is not necessarily a “gray area” category as the non-profit niches are, but sometimes these loans are nevertheless considered as such because of the complexity of the underwriting involved. A senior manager explains how the bank is able to “hit the sweet spot” doing multi-family loans:

Sometimes you helped that little old lady who needed the $75,000 loan she couldn’t get anywhere... [But] you weren’t doing enough of it [such type of loans] to make that big of a difference from my perspective. I thought, there’s gotta be a better way that we can make a bigger difference. So maybe, maybe that’s in making multi-family loans and doing loans on properties that are old and you know... maybe we help a little bit by making a loan that we know is a slumlord but requiring in the structure of that loan that they have to upgrade the plumbing, that they have to go in and fix the carpet, that they have to go and put in new appliances, that they have to upgrade the property—that’s a service! Even though we’re making a loan to a slumlord, the property’s being upgraded through this process.

Therefore, when they are dealing with multi-family loans, one main strategy BFB employees use to fulfilling their mission to help empower the community is by attempting to protect the rights and welfare of the community through the conditions of the loans they provide. They are able to achieve this through their extra effort in underwriting and structuring some multi-family loans to require renovations to what is often dilapidated living conditions for the renters.

“You Work a Little Harder”: Underwriting and Structuring Gray Areas Loans as the Solutions to the Tension

In most cases with multi-family loans, “gray area” loans are considered as such because of the quality of the borrower. That is, the “gray area” aspects of the loan are due to “borrower quality” or the client’s less than stellar or unconventional credentials. But the “property quality” or poor condition of the property involved in the transaction can also put the loan in a “gray area.” Conventional clients who are often not “gray area” clients can be, for example, a professional who is a W-2 wage earner who has a consistent cash flow that is clearly documented to show that she can “weather the tough times without question.” In a 2010 interview, a BFB
executive discusses why some clients have loans that are considered in the “gray areas” and the difficulties that BFB has in assessing their financial stability: “A lot of self-employed loans are a lot harder to underwrite because it’s like, ‘Where’s the money? Wait a minute. I look at your schedule C (or your other tax returns if it’s a LLC [limited liability company], or corporation), and it gets really fuzzy as to how the cash flow goes. I mean you track it [the cash flow]--and I’m exaggerating a little [here]--but sometimes...we can’t show it on paper.” Because such clients cannot provide clearly documented paper trail of their cash flow, BFB actors have to take the time to decipher and analyze each case.

In cases where the “gray area” enters through the quality of the property, the BFB actors rely on the standards that mainstream bankers and real estate professionals use: the standard “A-F” system of grading property. “Gray area” properties are those that are either in what one BFB banker describes as “run down, rough areas” and/or are themselves in old, poor conditions. On the “A-F” scale, many of the multi-family properties that BFB provide loans to are in “C” areas. One BFB employee explains: “[We did] a lot of monitoring and we did a lot of holdbacks because we were loaning on properties that are in C areas...—and the reality is, at this level, the lower level of apartment housing, they get hammered a lot more by the tenants. It’s just the nature of the demographics. And so most of the properties were loaning on—they’re beat up and they were mostly older.” Similar to the cases based on “gray area” borrower quality, cases based on poorer property quality require much more work and effort to fund and service. The CLO, Eric, explains why gray area loans are more difficult to underwrite:

It’s more difficult to do that ‘gray area’ underwriting. It takes more time because you have to get more of these letters of explanation, you have to spend more time figuring out whether it works or not, whether you can create a picture that is supportable in making the loan and feel good about it and feel like you are making a good loan. It’s just more effort, more time and more documentation when you’re in the ‘gray area’. So that’s where it’s kind of tricky to make a lot of money as a small bank...because—resources are limited, human resources, and so you could do more volume if you could just turn right through them.
Even though the bank is “getting a higher rate and a higher yield for the gray area,” there is still an opportunity lost by making such loans. Eric explains: “Different loans take different amounts of time. But if you look across board and take a hundred loans, it takes the same amount of time to underwrite, the process to underwrite, document and fund, a $50,000 as a $3 million loan.”

But instead of taking “cleaner” or “smooth, like butter,” “A” loans that are easier to underwrite and often more profitable, Eric and his staff put effort in helping those in the community who have more difficult and time-consuming loans. Therefore, even if the customer does not have excellent credit or may be purchasing property that is considered “risky,” Eric and his team just “work harder” to make the loan work because this is one way to fulfill the bank’s dual mission to assist the community and stay solvent and profitable. As Eric puts it, “[You] work a little harder, and you try to do both. You work harder through underwriting and also because you have to work longer. You would normally say, ‘I’m not going to do that little loan, [but here at BFB we do].’” He continues:

[I]t takes the same amount of time to do a $3 million commercial loan as it does to do $100,000 triplex. I mean maybe not exactly. Maybe the underwriting’s a little different. Maybe I should say $150,000 five unit apartment building. That’s probably closer to parity in terms of time and effort. In fact, the apartment could actually take you longer if – it depends if their credit’s real bad, if it has deferred maintenance that you have to deal with and work into the structure of the loan, and then you’re going to have to follow up to make sure the deferred maintenance is cleaned up…If you just are going to maximize your time, effort to return, generally, you’re going to want to do larger loans that are more or less cleaner.

BFB takes the smaller loans because they know that it will provide a sorely needed service to those who need a loan whereas most mainstream banks would not. Eric explains:

[BFB can] book that $3 million loan and [we would be] making interest on $3 million instead of on $50,000 for the same amount of human resources that goes into getting it on the books. That’s where a lot of lenders would say limit—let’s say we don’t do any loans under a million, we don’t do any loans under $50,000. And that’s another place where we in a certain sense serve the underserved is like we’ll do the $50,000 loan. …Other lenders because it’s [the multi-family property] so run down, don’t want to touch it. It’s a C-, D situation where you know, and we’re making it more habitable living environment for the residents who live there. That’s a service.
That’s mission based. That really is serving the underserved.

The dedication and effort the BFB employees put into structuring gray area loans to provide leverage (via the loan) for the disadvantaged to secure improved housing conditions is a good example of how the BFB staff attempts to share their power and privilege with the marginalized. The BFB employees are not attempting to garner more money and privilege for themselves. Instead, they use their power and financial resources and lend it to the underprivileged. In the cases of what Eric call the “slumlords,” the BFB staff allows the voices of the poor to be heard. As Eric says, “The residents themselves can’t get the slumlords to fix it, but because the slumlord wants money from us, we can dictate the terms.”

But these loans do not come easy. “Working harder” for BFB employees entail a lot of detailed work to follow-up with the holdbacks that BFB actors made as conditions of the loans to so-called “slumlords.” It is unclear if the bank would have experienced what economists call “opportunity cost” when they spend time on time-consuming “gray area” loans. Even Eric was not sure. Eric explains:

Most other lenders didn’t want to lend because of the condition that it [the property] was in, didn’t want to take the time to go through the whole bat because what that usually means is say we held back $200,000 for improvements, that we required that it be done in six months, that means that somebody internally has to monitor it and usually they’re coming back for $20,000 at a time and so we have to keep doing—we have to keep getting the file, taking the time, opening it, analyzing the receipts that they’ve given us, going out and inspecting and making sure the work is done three or four times. So it’s taking a lot of human resources, so are we making more money? I don’t know. Because our human resources are very—you know, we’re charging more for the loan, but we’re spending more human resources to monitor and service that loan. So maybe it balances out in the end…[Y]ou would have to do a real in-depth analysis to know. Um, I think it was probably a wash. That we, you know, given the human resources, because those same human resources, given we’re a really small group, could be spent making more loans—the opportunity cost again. So it kind of balances out, but that’s why you charge more. Because you, you have to compensate.

The bank may charge more to compensate for the increased workload: in addition to the work put into the underwriting, the loan servicing staff had to collect the receipts and the loan origination
staff would have to follow-up on the holdbacks. As CLO, Eric would orchestrate the entire process of making sure that the “slumlords” were actually renovating their properties. One of his assistants would manage the paperwork in-house and Eric, a loan officer or an outside consultant would inspect, take pictures and write a report on the property. The BFB team engaged in a lot of monitoring and “a lot of holdbacks.” BFB employees used holdbacks as an effective strategy to make the living conditions better for those living in the community, but even before the employees can think about how to structure a loan, they must first have a good impression of the reliability of the client.

“[I]t’s a judgment call. Do you accept it or don’t you accept it?”: Leeway, Stories, Creativity and Trust

The process of structuring a “gray area” loan involves trust, dedication and strong relationships with the community. Underwriting a “gray area” loan can present a leeway where BFB employees can use their discretion. This is because in the loan process there are ways commonly used throughout the financial industry to justify (i.e., tell a “story”) and underwrite a deal that allows substantial subjective decisions regarding risk to be made. Especially for bankers like those at BFB who are working to approve loans for people with unconventional and/or poor credit, they have to rely heavily on letters of explanation to provide what Eric calls “stories” to explain why they are still reliable clients despite their weak credit history. Many of these stories are “creative” and BFB employees have to use their judgment to decide whether or not to accept the validity of the “story”—a story that is often difficult, if not impossible, to verify. In cases where clients have non-conventional or poor credit, creativity and calculated trust play strong roles in whether or not the loan gets approved. That is, when it comes to clients with weak credit histories, the question for the bank employee becomes: Are you willing to accept people’s credit explanations? Eric discusses these issues and provides examples of what kinds of stories may be acceptable in credit explanations in the “story loans” that fall in the gray area:
Let me put it this way, a lot of the credit explanations are very creative. And a lot of times people don’t remember or they don’t know, I mean, so they get creative and brokered loans—the loans coming from brokers—the brokers write the explanations for them. I mean, this is common practice. And it’s a judgment call. Do you accept it or don’t you accept it?

And so that’s the subjective part and that’s the gray area. And I’m sort of exaggerating—these aren’t the best characterizations, but they kind of are, you know? And then there’s—see the thing is, there’s another such as ah, a lot brokers know how to package things and how to kind of massage things and a lot of times what, what, what we would do in this gray area is that it’s a story loan. Okay, there’s this problem, and this problem, and this problem with whatever it is—property, collateral, borrower, credit, income, job, whatever. [But] what’s the story? Give me a story, right? And so we, we sort of call them “story loans.”

Okay, explain it. If we can understand the whole situation,—oh, okay. I understand why you filed bankruptcy—because dah, dah, dah, dah dah happened, you know. Bankruptcy stories are great. It’s like, you read all kinds of things. But what’s the story?...[A] lot of the underwriting process ends up being explanation letter. Give me an explanation letter as to...why was the income from that apartment building $45,000 in 2003, $40,000 in 2004, and $75,000 in 2005—now, the year that you’re trying to get the loan? Well, which income are we using to qualify?

Eric continues by providing a specific example of a “story”:

Here’s the story. Give us a letter of explanation as to the disparity of income. ‘Oh, well see, I bought the property in 2002, and when I first bought it, it was full of tenants who were running drugs, and it was hard to collect rent and da da da so I had to kick them all out, vacate it. I brought the police in, got them all arrested and then I had to rehab the property. I paid out of pocket and spent all this money.’ And then we might say, give us evidence of the money you’ve spent. I don’t see it in your tax returns. It doesn’t show capital improvements—what did you, you know? Or where? [Provide us with this evidence so that] your story makes sense. It’s right there in your tax returns that you spent $150,000 in whatever year, 2003, 2002, and so then you really started renting it in the early part of 2003 and that’s why it’s only $45,000 that year, but oh, oh, but then you had some bad tenants and that’s why the next year it dropped a little and then you got them out and now you have good tenants, they’re all paying and everything’s fixed and...—you’ve already put all your money in and you don’t have to put a lot more to fix things and it’s stabilized. Before it was unstable, now it’s stable, okay. We’ll accept that or no, this doesn’t make sense because we can’t back any of it up...Right? Or you’re more willing to accept the story from a person who makes a million dollars a year on their AGI [adjusted gross income], on their tax return, their 1040s versus the person who shows $20,000 on their AGI. Which one are you more willing to say or willing to accept that story, right? I mean, I’m kind of talking about this in the very real, how it actually happens. A little exaggerated, but not really. And you know, a lot of people may say that’s not how it works, but it is...And, and when you get down to it, some of it too has to do with, you know, you’re—let’s say you’re getting loans from brokers—you
know your brokers and you know the ones that are a little more...shady than the ones that really upfront and give it to you straight. And you learn this over time or your gut tells you. So you’re like, ‘Oh, no, no, no.’ I mean a lot of this is gut. I mean I’ve done this long enough that seriously, I can open a package and thumb through it a little bit and if I’ve never known the broker before I can tell by the way it’s packaged where that broker—what to think of that broker—and yes, are you wrong sometimes? Yeah. But mostly, you know. You can smell it. It’s like you know your game, you know you business, you can smell it. You know it. Just like the person who sells cars. They know those who walk on the lot whether you’re a lookie-loo or whether you’re there to buy a car that day because they’ve been doing it long enough and their human gut instinct, that intelligence there knows. And so, so that plays into it too.

This judgment or “gut” feeling is based on the level of trust, knowledge and experience the employee has of the community. In other words, the employee’s connection with the community is important because it is this connection—via networks and social capital—that the employee may have at her disposal. Furthermore, other issues such as the employee’s own history with the community and her familiarity of the community’s culture can also help guide her “gut.” BFB actors have to have a strong commitment to the LOR to work on “gray area” loans that benefit the community. Otherwise, as Eric explained above, the employee who is solely driven by profits will choose to do the bigger, “cleaner” loans that will earn the bank and the employee more money for the equal amount of work. The issue of trustworthiness is important because whether or not the BFB employee extends trust to a client is influenced by the networks, social capital and history the BFB employee has with the community members—all of which help to guide the actor’s “gut” feelings. These community connections may not always have direct bearing on the client in question, but to know the culture—the habits and ways of thinking—of the community may provide enough hints to sway the employee’s “gut” and therefore may influence the perceived the trustworthiness of the client.

The BFB actors employ another strategy of selectively accepting “creative” story loans in instances where their clients have gray area properties or the clients themselves have weak credit histories. They strategically accept the “creative” story loans of clients by relying on their LOR
and extending trust that is based on social capital and their “gut” feeling. Such strategies represent the non-traditional banking methods the BFB actors employ and they are what allow them to achieve their mission. As seen in the beginning of the chapter, Hudson’s commitment to providing people with second chances reflects how using calculated compassion is merely normal practice for BFB actors. That is why the bank actors have never kept track of their gray area loans—it is just what they do. It is the norm. Like the corporate cultures described by Fantasia (1988) and Turner (1995), the BFB actors’ daily actions under the bank’s LOR culture reflect the blurred lines between consciousness and action. It is difficult to strictly delineate the BFB actors’ awareness of their desire to be compassionate and when they are acting compassionately.

V. The Conflict: The Pressures of the Business World v. the Commitment to Doing Good for the Community

The loan process at BFB is especially complex because in addition to trying to make a profit, the BFB staff and leaders have the additional concern of being a good steward to the community. As mentioned above, it is difficult to quantify the number of “gray area” loans the bank has done in terms of volume or dollar amount because the bank has no such tracking mechanisms. According to Paul C. Hudson, many of the loans the bank has done can be considered “gray areas” by virtue of the condition and area of the property. But of the “gray area” loans that were “feel good” loans that helped the disadvantaged, both the CEO and CLO had expressed that they would have liked to given more. Eric says that they did not do a high percentage of “feel good” loans in dollar volume during his tenure. However, he admits, that he did “enough of them” to remember how difficult and frustrating it was to be a conscientious capitalist who cared about how his business affected the community.

[I did] enough of them [‘feel good’ loans] sometimes I’d be annoyed by it because I have pressures to produce and create income and create growth and I’ve got to be bothered by this little ‘feel good’ loan and yet that’s what I want to do but I’ve got all these pressures and stresses over here—the board here expecting this and that and that and that and you know, and gotta get our
numbers over here, and gotta get our numbers up and you, we’re in a business with shareholders to satisfy, right? So sometimes they were a nuisance to me, right? But, but at the end of the day, they were important to me…

This passage reflects how difficult it has been for Eric and other BFB actors to achieve both the goals of profit and community even though they wanted to prioritize helping the underserved since it was also a very important part of their personal and professional goals. Eric explains:

It’s one of the toughest parts of this [job]. While you’re feeling the pressure of growth and production…and safe and sound lending…and regulation[s] and all the things you have to tend to on an ongoing basis. There’s also that, that undercurrent that always there: we’re, we’re mission based too! And these things are sometimes in conflict. In fact, that’s the stress point, is that there’s a conflict between it because there are times I’m looking at a loan saying, ‘We should—I want to do this because it feels right to do it. It feels like it’s within that mission.’ And yet, aggg, I don’t want to be doing that and having the loan go bad and have it backfire because we were having compassion…[S]o there’s a certain level of conflict in it and you had to weigh the decisions of all sides. I mean there were times when I said, ‘I want to get rid of all this stuff so that we can get to the making money because that’s the pressure. But I didn’t want to get rid of all that because that’s why I came to the bank. But I would not have gotten back into banking no matter what except for I was attracted to that [BFB’s] mission personally. That was just me. I’m probably unique amongst bankers as far as that goes…And I think that it is…the most difficult part at Broadway Federal Bank.

But at the end of the day, profit and the financial stability always took priority over the mission to help the underserved even if sometimes that mission did come to the forefront of their thoughts.

Eric elaborates on this point:

We’re publicly traded, we have stockholders to answer to, and profit—we have fiduciary obligations to see to profits while still maintaining the original mission in the sense of serving the underserved on some levels. Was it the foremost on our minds? Um, probably not. But it was always there--daily underwriting, safe and sound lending, and profitable lending and making the bank profitable and controlling expenses, those were the daily concerns day after day after day. But this original mission for why it [BFB] was set-up was always there as an undercurrent and sometimes--and sometimes it would come to the forefront. Well, I’d be looking at a loan with Paul [Hudson] and I’m like, ‘Uggg…this is a problem, this is a problem, this is a problem... But you know, it’s your bank. I’m telling you the issues and if you want to do the loan because I understand our mission, then we can take this risk…[W]e can take a risk on a $75,000 loan to a little old lady who needs a little help right now. But it’s well secured, it’s a low loan to value, it’s compensated, but she’s--her income’s meager and her credit’s so-so, but we’re safe and secure because the property is worth double what the loan is. We should do this--this is what we’re about. She can’t get it anywhere
else, but she needs it for this reason, this reason, there’s a story and we should do this because we have heart, because that’s our mission and here we’re making these $2 million apartment loans that are safe and sound and so forth. We can afford to do this, let’s do it, right? So, it’s [the helping the community part of the bank’s mission] there—is it at the forefront? No. Profitable, sound business practices are at the forefront—that we can support to our Board of Directors, that we can support with auditors—internal and external—that we can support with our federal regulators OTS [Office of Thrift Supervision]…Yes, always we have to back up any decision we make, and so safe and sound business is the first and foremost. But, but this, this current always ran through.

**The Price of Having a Dual Mission**

BFB’s “gray area” loans in the non-profit, multi-family and commercial property niches were a calculated strategy that reflected their small size and their dual mission. It set up a challenge for their employees to arguably juggle even more issues than if they would have had they worked for mainstream organizations. First and foremost, the niches BFB leaders chose served both purposes of profit and community because as an employee aptly put, “We’re in a business and we have to figure out the best strategies for the greatest profitability. [But] for the most part we were limited to the small because that was our size. That’s who we were.” But BFB is also limited in their growth because of their commitment to community: when they say “yes” to the small $50,000 loan, they are also losing out on opportunity cost. Those opportunity costs then in turn limit the bank’s growth and their ability to do bigger loans. When I asked Eric if the bank specialized in the “gray area” niches to make a profit or if they went into those niches to serve the underserved and help those in need, he replied:

It’s both. It’s a good niche because generally if you could find a business where you’re serving an underserved market of any nature—well, of course you’ll have to do the analysis—is it a market that you can serve and do profitably? But, no matter—and in a bigger sense, you’ll need to find a niche. Well, when I started, did you know what was our maximum loan amount? Around a million? A little over a million? By the time I left [seven years later], we were, I don’t know, I think somewhere over three million? So, because of the growth, you can do larger loans as you grow, right? Because it’s all percentages of size, capital and etc.

So as we grew, we were able to do larger loans. That helps you grow even more, even faster because you can put the same effort into a larger loan than a smaller
loan. Well, when we could only do smaller loans. So, partly, it was the nature of our size, it the nature of who we were, and so largely, the smaller loans tend to be the B, C properties, the B, C borrowers, so it was the nature of who we were. But that was also driven by the fact that the bank didn’t aspire to grow for the first 50, 55 years of its existence—[it] wasn’t aspiring to grow into a great big bank. *It was aspiring to serve the market that it was set up to serve.* And just to do that. So it hadn’t grown to be bigger.

According to Eric, the bank’s growth was slowed down by its commitment to serving their local community because its commitment meant that the bank’s financials reflected its community, which continued to be neglected by the mainstream. By 2008, under Eric’s leadership as the CLO, the bank was more profitable because they had established a new network of brokers that introduced BFB to more conventional clients and properties outside of SLA.

[In the past,] most of the properties we were loaning on—they’re beat up and they were mostly older. Now as we started to become more successful, we got more brokers and we got our pricing in line to where we were very competitive in the market, we started to do nicer properties here and there, you know, maybe instead of being built in the ‘40s, ‘50s, they were built in the ‘70s, ‘80s, um, not all in South Central, some in the Valley—although there are run down, rough areas in the Valley too. You know, I mean it just depends, but we started to see a grade higher in both borrower quality and collateral quality, as we were able to do larger loans, as we were growing and we were able to do a $2 million loan and we weren’t just limited to a million dollar loan... It opens up a different segment of the market as you’re able to do larger loans because the nicer properties are more money, right? But we still were in the mid lower tier even then for the most part. You know, we still weren’t the West side, Beverly Hills, beach cities, um, higher end areas.

In addition to being limited by its small size, the changing racial and ethnic demographics of the area further limited the kind of “gray area” business that theoretically could have been perfect clients for BFB. When BFB opened in the mid-1940s, the majority of the community was African American, but now Latinos make up the majority of residents in SLA. Similar to the African American population, the Latino population experience challenges in gaining access to financial services. (For more, see Ch.2.) Therefore, it would seem as if this shift in demographics would not affect the effectiveness of BFB’s mission to serve the community. However, it turns out that the Latino population did not flock to BFB to fulfill its financial needs
due to a variety of complex reasons including distrust in the banking system, language barriers, and a lack of networks that facilitated trust among the Latino population and the BFB actors. For example, even though the large community child care center (discussed earlier in the chapter) had been operating in the SLA area for decades, the key organizers of the predominantly Latino child care center did not think of using BFB earlier. A director of the child care center explains:

We didn’t use them [BFB] before because it just wasn’t an obvious choice because I think that when you look at banks, you go for the biggest bank and plus they were nominally outside our geographical area and when I say that, um, when you have a large population of employees that are minorities and in our case, at the child care center, they’re Hispanic, there is not a lot trust in the banking system...So the proximity of a bank where they can cash their payroll check becomes of the most importance when the employer selects the banking relationship. So you want to be able to pay them once a week or twice a week and they can literally walk to the bank and the bank can cash their check. Broadway was just too far away. It would have required them to walk almost a mile a half, and so that just wasn’t an obvious choice, so most of the time you get into these situations—the bank wants a larger relationship so they want a depository relationship as well as a lending relationship and plus they want your payroll and all of that. And so they were just not obvious choice and...Broadway just being a very small bank, ...with four branches and one branch being a substantial walk away was not an obvious choice and frankly we did not know that they were into making these loans until I saw their annual report in which they talk about faith based lending—lending to the churches and all of that and so, to me it was a logical step to extend that to a state funded child care center that actually has a greater certainty than the church members paying back.

**Small Bank v. Ethnic Bank—Broadway Federal Bank is Both**

The issue of bankers using leeway and discretion in the bank loan process is nothing new. As Guy Stuart (2003) asserts, this is the way the industry is set-up. What is different at BFB is how the employees “go against the current” by considering the welfare of the community. They are attempting to share the privileges and economic opportunities with those who are disadvantaged instead of thinking only themselves and making a profit. This balance of profit and community that the employees at BFB achieve is no easy feat. The bank’s flexibility describes a characteristic of any economic organization with rules—because with rules comes the necessity to “bend” them because not everyone fits into the molds that the rules dictate. In other
ways, BFB’s flexibility is reflective of its status as a typical small community bank and as an ethnic bank. Sometimes the fact that BFB accepts small, “gray area” loans reflect the fact that the loans and underwriting at BFB is not on a conveyor belt as they are in big, mainstream banks because they are small and less bureaucratic and therefore it is easier for them to be flexible. The fact that many of the clients have “gray area” loans also reflect that if the client and her loan fit the cookie cutter mold, many would have already opted to do business with the mainstream bank.

As a small bank with fewer choices than mainstream banks to “pick and choose” their clients, BFB needs almost any kind of business they can get—even if it means they are “gray area” loans. But the bank’s flexibility is also a reflection of the needs that the underserved continue to have and the bank’s staff and leaders’ dedication to the LOR. In other words, the bank continues to have characteristics of an ethnic bank because the needs that the ethnic bank was established still exist. Specifically, I argue that the bank’s flexibility is reflective of the racialized space and people of the SLA community at BFB. Historic and current marginalization of the community itself inevitably negatively affect the life chances and opportunities that the community members have to obtain a “mainstream” financial history such as a steady employment, the type of jobs that provides steady W-2 forms, etc. that affects credit history. Although its status as a portfolio lender automatically provides BFB bankers with more flexibility crucial part of understanding the nature and extent of BFB’s flexibility is found it the bank’s Second Chance culture, a culture that is rooted in the staff and management’s LOR. If the BFB staff and management did not use this logic, then they would not react by finding creative ways to be flexible to achieve the dual goals.

BFB customers describe the work that BFB does as both “typical” and “unique” for a small community bank. Even as one client explains at great length how in over three decades his organization has not been able to get a bank to help with their cash flow problems, he nevertheless considers BFB a “typical” community bank. But another client, who also identifies
BFB as having saved her non-profit organization, calls BFB “unique.” At the end of the day, these divergent images of BFB as both unique and typical reflects the tension of the bank—it has typical characteristics of a small community bank that needs to make money and will expand to a niche that will allow it do so and it also has unique aspects that are tied to the African American legacy that keeps the employees cognizant of the effects of their business transactions to the well-being of the community. This seemingly conflicting perspective of BFB as a plain, community bank and a very special black bank reflects the different aspects of the bank. BFB is both. Sometimes their business transactions reflect their ordinary status as a small community bank that goes out of its way to make gray area loans to community organizations. Sometimes BFB goes beyond the typical community bank in providing loans that are facilitated by the special knowledge of the community (e.g., by social capital) and require a dedication to reinvesting in the community.

**Trust and its Role in Achieving the Dual Goals**

What is the role of trust in achieving the dual mission? Without extending trust or having a bit of faith in the potential client, then the employees have nothing to work with. The LOR cannot be applied if there is no trust in the stability and integrity of the client. When the employees ask questions such as: “Does the story make sense?” and “How much do you want to accept?” Those subjective questions are based partly on the experience and “gut” instinct of the employee—something that is influenced by the employee’s experience with “what the numbers say” and also how much knowledge, understanding and experience the employee has with the client’s culture that affects her financial habits and other actions.

As seen in the ideological and practical debate Eric had with the Board, the trust that Eric asserted that BFB would have lost with the community if they had provided subpar single family loans indicate the important connection between social capital and trust. Without trust, there can be no social capital garnered through their networks in the community. The BFB client’s
assertion that the Latino population’s lack of trust in banking stands in stark contrast with the trust that the African American community has in BFB. Moreover, with the Latino population now being the majority in SLA, this poses a challenge for BFB to grow their customer base. In other words, trust works both ways in a successful bank transaction—the bank employees must have trust in customers and vice versa. In sum, BFB actors will have to find new way to negotiate the lack of trust, social capital and networks with a new and growing sector of its client base as the future of the bank will in part depend on how BFB actors navigate trust all over again.

VI. Conclusion

BFB’s involvement with gray area loans is nothing new. BFB actors had been providing unconventional, gray area loans since its establishment when they gave loans to African Americans and to black churches when mainstream institutions would not. However, in the 2000s BFB leaders expanded their gray area loan niches because financial giants in the mainstream financial industry had cornering the market on single family loans through their bulk sales and subprime rate programs. Thus, BFB were pushed into this direction. But in this context BFB leaders also strategically chose particular gray area markets to enter, such as the non-profit organization niche, because it allowed BFB actors to use discretion and provide second chances to community members who had weak credit histories either because they had non-conventional jobs and/or had made financial mistakes in the past. The BFB management chose to focus on the non-profit organization niche because their connections to the community helped identify the need for funding in this niche. Furthermore, their networks helped develop specific niches such as charter schools in the non-profit world.

One of the biggest decisions the BFB management made in expanding the bank’s gray area niches was in the abandoning of the single family mortgage. The leaders made the difficult decision to stop originating single family home mortgages at the bank, a cornerstone program of providing a direct service to community members. However, as reluctant as some were, they
decided to outsource the single family mortgages and focus on multi-family loans given the conditions of the market and the pressures from giants like Countrywide. That decision reflected the tension of profit and community that permeates the bank. In some ways, the decision showed how the profit goal always triumphs over the community-oriented goal when the two goals are in conflict.

BFB leaders had to change their goals in order to keep their goals of staying solvent and serving their community. Based on their connections to and the knowledge of the community, they managed to do so by creatively structuring time-staking loans to owners of multi-family owners that required them to renovate their apartment buildings for the community members who lived in them. Furthermore, the decision to shift from focusing on single- to multi-family loans was a service for the community in another way: as Eric, the Chief Financial Officer put it, it was a disservice for their clients to go to BFB for single family loans when BFB could not offer the multitude of loans that other banks could offer at a lower prices. BFB attempted to make the best of both worlds by making a slightly higher profit for providing “hard to come by” loans and by ensuring that community members lived in better conditions by requiring “slumlords” improve their apartments as part of the condition of the loan. The strategy to require “slumlords” to make improvements to their buildings had an additional consequence: it also lowered the chances that the apartment owners would walk away from their properties once they used all the equity from the property, a situation in which Estella had explained in an earlier chapter where the owners who had pulled out as much money as they could, leaving the property dilapidated and then wanted to walk away from the property by giving BFB the deed. In sum, such loans not only help maintain the community’s property value, but it provides a voice to the neglected tenants who complain about their housing conditions but who often have little recourse.

The story of BFB’s transition into new gray area loan niches reflects how BFB actors relied on their LOR to maneuver the demands of large, macro-level changes in the financial
industry. On a structural level, the leaders of the bank developed loan niches in community-oriented gray area niches such as for churches, charter schools and other non-profit organizations. On a micro-level, the employees used their discretionary power to structure loans to benefit the disadvantaged. In addition, this chapter also elucidates how the staff applies their LOR in achieving the dual goals of profit and community especially in situations where those goals may contradict—for instance, in situations where the bank has an option of aggressively seeking bigger and more profitable loans outside their community rather than spending a lot of time and effort on making small, locally based loans work. The staff achieves these goals by relying on their logics-logics that complement the LOR culture of the bank that is based on calculated compassion.

Due to BFB’s status as a publically traded institution and a federally regulated bank, the utmost priority of any decision made by BFB actors is first and foremost based on its fiduciary responsibilities. That is, the staff always makes their decisions on the safety and soundness of the transactions. In situations where BFB actors feel that it is necessary to focus on benefiting the community, the bank must not financially suffer too much by making too little profit. Therefore, at BFB the profit margin is more negotiable than what one would expect in a mainstream financial institution. Because there are different kind of costs—financial, time, opportunity, energy, resources, etc.—associated with each transaction, what ends up being flexible is the extent of the profit collected by the bank and the individual staff members (i.e., in situations where they can profit individually from transactions). The other aspect of BFB actors’ flexibility is the type of risk the bank is willing to take. In the next chapter, I delve further into the subjective definitions of risk and the role of trust and culture in the decisions at BFB in countering such “risk.” I argue that the reason why culture is important in banking transactions is because it facilitates the trust that influences the “gut” instinct and other subjective parts of the decision-making process, a decision-making process that is subjective throughout the entire financial industry but is often seen as objective
Chapter 7 Calculated Compassion: Redefining Risk, Strategic Embeddedness, and the Role of Culture in the Credit Evaluation Process

[T]here’s a willingness and a propensity to want to want take a risk and support you because we [BFB employees] want to build a community of wealthy individuals. And that’s just the play and I think that because we all have an experience of our own that we can tap into and then therefore extend a sense of compassion. (italics mine)  

Kia, Relationship Manager

I. Introduction

Thus far in the dissertation, I have shown how Broadway Federal Bank’s (BFB’s) logic of reinvestment (LOR) bank culture has been facilitating the bankers’ dual goals of helping the community and also making a profit. The LOR has changed over time, reflecting the changes in the bank industry and larger changes in society. On historical and theoretical levels, the LOR came out of the African American intellectual thought and history and became the bank’s culture as part of the founders’ legacy. On a practical level, BFB agents have broadly enacted the LOR by working in “gray areas” that allow them leeway and discretion to make decisions that would achieve the dual bottom line of the bank. As described in the previous chapter, the LOR is a feedback loop; a living logic that is based on communication, responsibility and exchange that facilitates the BFB agents’ ability to achieve the bank’s mission. In this chapter, I show how BFB agents specifically put the LOR into action by focusing on what I call the strategic embedded model of credit evaluation, a model that resists the mainstream banking industry’s model in order to expand financial opportunities to those underserved by the mainstream industry. The strategic embedded model of credit evaluation is a hybrid of the two main models of credit assessment used by the U.S. lending industry since the 20th century: the “embedded” relationship banking model and the “disembedded” mechanized banking model. The relationship banking model was popular until the 1970s and is based on reducing uncertainty by assessing a borrower’s
credit through embedded, social relationships between the banker and the borrower. The mechanized banking model began dominating the industry beginning in the 1970s and evaluates a borrower’s credit based on mathematical calculations of risk through constructs such as credit scores. This model of calculating risk has been seen as an objective and unbiased gate-keeping process to credit access and a good way to protect the bank’s interests.

However, as I will elaborate later in this chapter, researchers such as Stuart (2003) show that the mechanized model is inherently biased against minority applicants. To resist these biases, the BFB employees use the LOR to employ the strategic embedded model and expand financial opportunities to the underserved by strategically relying on uncertainty rather than risk to reduce rates of delinquency. In other words, by building relationships and networks with community members, BFB bankers rely on social capital and trust to mitigate uncertainty rather than relying solely on the mathematical calculations of risk that the disembedded mechanical model produces.

Because BFB agents are resisting the disembedded industry’s model of credit evaluation by using its own strategic embedded model and are “swimming against the current,” they have to redefine risk and take on extra work to ensure that those who are excluded by the mainstream system are given a fair assessment and opportunity at obtaining a loan. By re-shaping the skewed definition of risk used by the mainstream, BFB agents extend more financial opportunities to historically marginalized populations. By treating each applicant as an individual and allowing the applicant the opportunity to explain their position and acknowledging their “story” (as seen in the previous chapter), BFB’s model of strategic embedded is actually a neutral process even though it in part relies on subjective social relations. Specifically, I argue that subjectivity cannot and should not necessarily be avoided and that because of the notion of embeddedness, lending is not only a quantifiable science, but also an art based on trust and social relationships.

Since the strategic embeddedness model is rooted in the bank’s culture of the LOR, BFB
is a case study that shows the significant role culture can play in the lending process—despite the commonsense understanding of it as an unbiased, “black and white” mathematical exercise. I also show how a bank’s culture is important in resisting bias. I argue that the role of culture is important in the lending process because it not only enables the discretion inherent in such transactions, but it shapes the defining of “risk” and the establishing of “trust”—both of which are critical aspects of credit evaluation. That is, culture is important in banking transactions because it facilitates the trust that influences the banker’s “gut” instinct and other subjective parts of the decision-making process.

Organization of the Chapter

I begin by briefly summarizing the dominant theoretical approaches to the phenomenon of credit assessment in the lending industry to help put BFB’s strategic embedded model into the context of the existing literature. Then, in order to highlight the themes of this literature and to show the range of views on how the industry operates today, I present the voices of the agents as they discuss the lived experience of the theoretical models in the literature review. In order to further elucidate the ways in which racial disparities are currently created, I rely on Guy Stuart’s (2003) work to show how race is embedded in lending institutions. Finally, I describe the ways in which BFB’s model of strategic embeddedness utilizes parts of both the embedded and disembedded models in order to open up new opportunities to the underserved. I conclude the chapter by arguing that although BFB has devised a sound way to manage risk among what the mainstream industry considers “risky” clients, they are fighting an uphill battle because in a capitalist system, profit remains the highest priority.

II. Models of Credit Evaluation: Relationship Banking and Mechanized Banking

BFB’s customers have changed over time, but the bank’s mission to serve the underserved has not. In the early days of the bank, most of the loan recipients were African Americans who lived in the geographic and cultural community of South Los Angeles (SLA) who
took out single family loans. But as the financial markets have changed, BFB has responded by focusing on providing commercial and multi-family loans to investors—many of whom are not from the SLA community (i.e., those who are not the traditionally marginalized clients that BFB often seek to cater to). (See for example, Ch. 4.) As previously discussed in the dissertation, before the passage of Civil Rights legislation and judicial rulings, the intense racial segregation caused the coupling of class, racial and spatial inequalities. But in the post-Civil Rights Movement era, these three forms of inequalities began to decouple and this made it more difficult to identify how different types of discrimination accounted for the disparities. Furthermore, this uncoupling of the three forms of inequalities made BFB’s mission more difficult as it now had to juggle even more combinations of how people are marginalized. Perhaps the most evident example of the decoupling of class, racial and spatial inequalities is seen in the transformation of the lending industry.

Since the establishment of BFB in the mid-20th century, there has been a significant shift in how the lending industry operates. As mentioned in Ch. 1, in the pre-1970s era, banks relied on an embedded model of relationship banking while in the post-1970s era, the banking industry shifted to using a largely disembedded, mechanical model of credit analysis. Before the 1970s, social relationships were a critical part of the lending process: the local community banker knew the borrower. Relationship banking was composed of both non-racial “personal knowledge” of the “5 C’s of credit” (i.e., character, capital, capacity, collateral, and conditions) to assess a borrower and racial “cultural know” (i.e., whether the applicant was white or African American—the “6th C,” “color of the applicant’s skin”). In other words, instead of only relying on the 5 C’s, local bankers were actually also using a “6th C” (or “color”) as well to determine the applicant’s creditworthiness. As we saw in the opening vignette of Ch. 1, if the applicant were African American, the banker would only apply the “6th C” first and automatically deny the applicant the loan regardless of how creditworthy he/she was according to the 5 C’s.
Although the relationship banking model has been slowly losing ground as the dominant credit assessment model, it was not until the 1970s when the confluence of technological advances, the globalization of financial markets, and the merger of banks that facilitated the disembedding of the industry. (See Ch. 1 for more.) Under the disembedded, mechanized model of lending, uncertainty is translated into mathematical calculations of risk. As Stuart describes in Discriminating Risk (2003), the use of credit scores strengthened the industry’s rhetoric of objectivity in the 1990s. The Fair, Isaac and Company became the leading supplier of credit scores (called FICO scores), which captured an individual’s credit history and likelihood of default in a single number. By 1995, mortgage industry giants Fannie Mae and Freddie Mac began relying heavily on the credit scores in the automated underwriting system (Stuart 2003: 97-99, 124). As a result, the mainstream lending industry followed suit and began using standardized data of an applicant’s credit history and constructs such as FICO scores to evaluate creditworthiness instead of relying on trust. In “Uncertainty, Risk and Trust,” (2001) Alya Guseva and Akos Rona-Tas rely on economist Frank Knight’s theory in Risk, Uncertainty and Profit ([1921] 1957) to distinguish risk from uncertainty. All lending institutions face the possibility of delinquency, but it is important to distinguish if the institution is dealing with risk or uncertainty because it has consequences on how the agents of the institutions can manage the possibility of delinquency. Uncertainty refers to a form of ignorance in which the agent can only make an estimate of the outcome because the data provided is not homogeneous and therefore the

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65 Under Fannie Mae and Freddie Mac’s automated underwriting guidelines, high FICO scores (over 660) only required underwriters to verify that the information in the credit report is complete; medium scores (620 to 659) warranted underwriters to perform a full review of the credit report; and finally, low scores (below 620) required the underwriter to perform a full review of the credit report with “an eye to identifying information that would indicate that the credit score is not a good indication of the borrower’s willingness to pay” (Stuart 2003:97). Although this system is structured to provide underwriters a chance to find “extenuating circumstances” in applications that have low credit scores, there is little incentive for the loan officer and underwriter to use such strategies to provide applicants with low credit scores and legitimate “extenuating circumstances” fairly priced loans or loans at all since the system is based on maximizing efficiency and profit. (See Stuart 2003:127-128).
data can be classified in too many meaningful ways; whereas risk refers to a situation where the agent can “assign useful probabilities to future events on the basis of the known distribution of outcomes in a group of trials” (Guseva and Rona-Tas 2001:625). If the lending institution is dealing with uncertainty, they rely on trust to manage the possibility of delinquency. But if the lending institution can transform uncertainty into mathematical calculations of risk, then it can rely on probabilities to mitigate risk.

In the United States’ disembedded financial industry, banks and other financial organizations have stable social institutions available to transform uncertainty into calculable risk (Guseva and Rona-Tas 2001). Therefore, it is no longer necessary for such organizations to rely on social ties and trust to mitigate chances of delinquency. Furthermore, using trust and other such subjective measures has been seen as suspect because “subjective” and social values have been understood as the root of discrimination in the past because the blatant exclusion of minorities (i.e., based on race, ethnicity, gender, etc.) was attributed to the personal prejudices of the banker in the relationship banking model. The removal of social relationships, subjective feelings and the seemingly “objective” statistical calculations of risk have made the mechanized model look fair and unbiased. Therefore, under this theoretical model, race and racial disparities should have been eliminated. But despite the common belief that the disembedded, mechanized model of risk assessment is neutral, data gathered in the post-Civil Rights Movement (CRM) era under the disembedded model show racial disparities continue to exist in the lending industry. (See Ch. 1 for details.) As we will see below, researchers began studying how “subjectivity” could seep into the “objective” disembedded model in order to understand how and why racial disparities persist.

Disembedded Mechanized Model as Producing Compounded Disadvantages for Minority Applicants: Self-Fulfilling Prophecies (Spatial and Statistical Examples)

In the past, there have been three main ways theorists have tried to explain how racial
disparities can exist in the seemingly objective, mechanized system of the credit market (e.g., commercial, residential (single family or multi-family)): 1) lender prefers to discriminate; 2) deficient information; and 3) embedded or constructivist approach. 1) Probably the most popular hypothesis of understanding why racial disparities persist is to focus on the lenders who prefer to discriminate, who according to the theorists who use this hypothesis, are few in number. As Becker (1993) argues, racial disparities are anomalies and/or reflections of a legitimate and rational capitalist market because lenders who discriminate will inevitably suffer in profits. Therefore, since lenders want to make profit, they will not likely discriminate. In other words, theorists argue that racial disparities reflect fair risk assessments. 2) Under the deficient information hypothesis, theorists argue that racial disparities are systemic byproducts of the issue of having deficient information in the loan application process. This second group of theorists is further broken into two broad categories: statistical discrimination and cultural affinity, which is also based on statistical discrimination, but introduces culture as a mechanism in which loan agents use to approve or deny loans. Statistical discrimination theorists argue that when the loan agent is faced with missing information about a minority applicant, the agent uses the statistics of the minority group as a proxy. Since the statistical scores of minorities are lower than those of whites, the minority applicant is seen as a higher risk than whites and the loan agent denies the application, thereby increasing the denial rate for minorities. This is what economists call the “Bayesian” effect because these dynamics cause a self-fulfilling prophecy. That is, the “Bayesian” effect describes how the cumulative effect of the loan denial cases for minorities causes even more minorities to be denied in the future because evaluators use the artificially inflated statistics to make decisions. As Stuart asserts, “Risk decisions that are self-fulfilling prophecies actually change the risks to which a lender exposes itself, simply through the act of making the decision” (2003:7). Stuart provides a spatial example of how the concentration of mortgage loans given in a given geographical area can automatically lower the risk of lending in
that area. Therefore, the applicant who happens to live in an area in which many of her neighbors have loans is seen as a lower risk by virtue of where she lives, and not because of her own financial history. For minorities who live in areas that have been historically segregated and redlined, this yet another example of how minorities are judged not by their individual merit, but on how others perceive their group.

The second group of deficient information theorists uses the cultural affinity hypothesis. Economists Hunter and Walker (1996) test Calomiris, Kahn, and Longhofer (1994)’s cultural affinity hypothesis in which the theorists posit that white loan agents rely more heavily on so-called low-cost characteristics (i.e., “hard” information that is listed on the application such as FICO scores) than high cost ones (i.e., “soft” information that require additional investigation by the agent) when evaluating applications from black applicants because they do not feel an affinity toward or have much knowledge of black culture. Hunter and Walker (1996) find that black and Latino applicants were held at higher quantitative standards (i.e., objective factors such as credit history and debt obligation ratios). That is, among the group of marginal applicants—such as applicants who do not have good objective credit scores, but not very bad ones either—white applicants are more likely to get their loans approved, while minorities are more likely to be rejected. In this hypothesis, this discrepancy is explained by the loan agents’ alleged “cultural affinity” with the white applicants. The theorists propose that white agents are more likely to believe the soft, high cost characteristics of white applicants (when there is deficient hard low cost information) because white agents are more comfortable with the white applicant’s culture.\footnote{One of the weaknesses of the cultural affinity hypothesis is its lack of specificity in what is meant by “culture.” For example, Perlmann (1998) argues that historical and conceptual details are missing in the notion of “cultural affinity.”}

In effect, it is as if white agents have more information on white applicants than they do on black applicants. Since there are more white agents, more white applicants are approved. In a political climate where the national dialog focuses on “individual merit” and the importance of “pulling
oneself up by one’s bootstraps,” Hunter and Walker’s (1996) study shows that for the cases where individual loan applicants have been tinkering on the edge, white applicants get ropes to pull themselves up and minority applicants do not.

III. Theoretical Models in Practice: Broadway Federal Bank Staff’s Views on Racial Discrimination in the Mechanized Model of Credit Evaluation

The following are descriptions of the theories of discrimination as represented by two members of the BFB staff, Richard and Kia. Richard, an underwriter, describes the banking industry’s mechanized calculations of risk as objective and his descriptions reflect the theorists who believe that there is no room for discrimination in the current banking industry. Kia, a relationship manager, presents the opposite perspective and asserts that despite the mathematical calculations in the mechanized model, racial discrimination nevertheless “seeps” into lending process and therefore racial disparities are pervasive. Although their descriptions of their practice and understandings of the evaluation process do not strictly abide to the models, their perspectives are important for two reasons: 1) my respondents are especially adept at capturing the themes of the theories of discrimination reviewed above by highlighting the roles of objectivity and subjectivity at play in the credit evaluation process and 2) by allowing my respondents to speak, I am showing that the employees at BFB represent a spectrum of views and they do not singularly believe in racial uplift or what race means in everyday life in the post-CRM era. Their understandings of how banking works and how racial disparities are created may differ, but their collective responses to assist the community are shaped by the LOR. In both cases, Richard and Kia’s interviews show that the subjectivities that come out of banking culture are significant components of the lending process—even though they disagree on how much of a role. Either way, the role of culture and judgment in the lending process reflects the embeddedness of social relations in economic decisions and transactions.
The Post-1970s Disembedded Model as Fair and Free of Racial Prejudice

Richard: “I don’t think there’s discrimination.”

As an underwriter, Richard analyzes and structures loans and then recommends them to the upper management, who must approve Richard’s recommendations. Richard says that the most challenging part of his job is “…trying to see the big picture, to see the whole transaction itself and try to structure it the right way so that it is profitable for the bank and it’s good for the borrower.” And in structuring each loan, Richard has to rely on the standard underwriting guidelines to see if the potential borrower can generate enough income to make their payments to the bank. Richard describes the key components of making such determinations:

Well, each bank—there’s a rule of thumb that says this is the ratio for payment, whatever—they have a name for the ratios and basically you use those guidelines to underwrite your loan. So you underwrite based on the lending guidelines, which is for example, if it’s an individual loan, I mean a residential, not a commercial, the debt to income ratio has to be less than 40% let’s say. So you use that guideline, you calculate the debt and income then you know. If it’s a commercial, they use a different terminology, they use a debt service coverage ratio, so you use that. The debt service coverage has to be more than 1.25—less than that, I would not recommend it. It’s a policy prescription.

But Richard admits that the “rule of thumb” for banks is different and he has seen this difference working for different banks.

I worked for three other banks and one was quite similar to this. It was a Middle Eastern bank, a minority bank… They were similar to Broadway, but their clientele was Armenian, so their clientele was like 80% Armenian and 20% other Middle Eastern…We used very different underwriting guidelines over there. So if, if the debt service coverage wasn’t there, but the LTV [loan to value] was really low, we’d say, ‘Okay, that’s fine.’ The LTV part will mitigate the low debt service coverage. So we will structure it differently.

And when I asked Richard to elaborate on how different banks can use “very different underwriting guidelines” and how it was that he learned what guidelines BFB was following when he first started working at BFB, he revised his opinion on the degree of difference among banks. He asserted that even though the banks do not have to follow the same guidelines, banks
“just have to manage the risk”: 

It’s not that different from bank to bank—minor differences. Once you read one credit write-up, you already know what they’re looking for at this bank, you know. You can determine the credit culture of the bank by just reading a couple of write-ups. I’m an accounting major, so it’s not a big deal for me to read you know, the credit write-up, the financials, the ratios, and you just see what they’re looking for. It’s [the banking culture of different banks is] the same—it’s not that much different. You know, they say that banks are the most conservative and boring industry, they’re right. They’re pretty similar because they are all regulated by one of the three agencies and that’s why they’re like very similar. You don’t see much difference between bank to bank. The big picture is the same, you know. Yeah, the ratio could be 10 base points lower or higher.

Richard is able to deduce what a bank’s upper management favors and prioritizes in the structuring of their loans by reviewing past loans. But he asserts that the “credit culture” of each bank only varies to a slight degree because of the bank’s credit administration are focusing on similar indications of low risk when underwriting loans:

In some banks, they focus on loan to value more than the debt service coverage like I said in my previous bank. If the cash flow wasn’t there, it wasn’t a concern as long as the collateral had a higher value, so the loan to value was low, they say, ‘That’s okay, that’s fine—let’s go for it.’ But this bank, the cash flow, if the debt service is not there, they say, ‘No, it’s an issue.’ I think a lot of small banks, like minority banks are like here, they’re very—if this thing doesn’t fit the policy guideline, they will mitigate it with other strengths, you know.

When I asked Richard if racial discrimination was possible in the lending industry, he replied, “No, I don’t think so. There are so many products out there, so many banks. I don’t think there’s discrimination. If everything were the same, I don’t think one person—I don’t know. In my experience, it doesn’t happen.” But when I give more detailed examples of discrimination lawsuits against banks, Richard begins to provide a possible way in which discrimination could take place:

I guess if the individual underwriter can, if he has some sort of bias or something, then he can use that in his underwriting—I don’t know. If you’re underwriting and it’s a business loan, right? You look the balance sheet and the financial statements and it’s so complex that if you have a bias, you can say, ‘Oh, he did not liquate enough or—do you know what I mean? [Or] you can say, ‘Their current ratio is really high. I don’t think they can [handle their payments]—you know what I mean?…But it’s so many things, it’s credit report, ratings, ratios,
liquidity, how much cash you have, how many years they’ve been in business, you know, if one business has been around for 3 years, the other for 15 years, which one is riskier? Of course, the new start-up business is. So I think that the individual underwriter can use his bias to—and then it goes to upper management and they have to—they can have questions and they would come back to the underwriter to fix the—there’s so many people involved that one of them can have a bias and kill the deal or raise interest rates, saying this is risky.

In sum, Richard describes the entire underwriting process as one that is based on how one “writes up the loan and defends it.” And because Richard does not think there is much room for variance in the guidelines, he thinks it is unlikely that discrimination exists in the lending industry.

For Richard (as for the theorists who argue for the fairness of the disembedded model), no one is deliberately discriminatory and even if there were such a person, Richard believes that there are so many different products and variations of loans available in the industry that the potential client can find something that would fit her needs—a common line of reasoning for those who believe that the “free market” will solve all problems. But what other theorists would argue is that even though there are a variety of products, not all products are created equal and some may even be detrimental rather than beneficial to the client. For example, all we have to do is to look at the effects of the subprime loans on poorer clients—and especially its higher impact in the black and Latino communities. The subprime products did indeed offer more options for some borrowers, but most turned out to be “bad” credit that led to foreclosures.

Banks consider standard factors under the same guidelines, but the way that they weigh the factors is up to the individual bank. Even so, according to Richard, this does not make that much of a difference in the outcome of who gets a loan because banks act in very similar manners when managing their risk. In sum, Richard is adamant that discrimination does not exist but he admits that it is possible—in fact, he says that prejudice can enter the underwriting process through the defining of risk. In other words, prejudice can hide in the complexity of the underwriting process, partly because the definition of risk is so subjective, but is unlikely because the guidelines that banks use are similar and there are so many products available to fit the needs
of various people.

**Racial Discrimination is Pervasive in the Disembedded Model because Subjectivities Enter through Culture**

Kia: “[It depends] on what margin you’re going to let people slide.”

Contrary to Richard’s description of the loan process as fair, Kia’s description of the disembedded model illustrates the perspective of how this supposedly “objective” model of credit evaluation can create biases and racial disparities. Kia says that discrimination is not only very likely possible, but pervasive. Instead of providing the technical details to the underwriting process, she provides the context to the social issues of trust, social capital and access that come into play before the particular loan goes to the underwriter. She explains how these issues affect the numerical weights of the underwriting process and how they are connected to the LOR’s components: racial solidarity, compassion and empathy. In other words, not only does she consider factors outside the actual calculations of risk in the underwriting process, she looks at factors that may skew or have some weight on what goes into the underwriting process.

Kia’s anecdotal data on this process reflects a compilation of various theorists who argue that racial discrimination is pervasive in the banking industry. Kia’s depiction of the lending system show how, unlike the clearly delineated theoretical models presented in the literature, in practical terms, many people—with their lived experiences—understand the system to be a hybrid of models. But a common theme in Kia’s multifaceted explanation is how subjectivity and racial discrimination “seep” into in the banking process through individual cultural preferences and racial prejudices.

Kia explains that the banking industry is not as uniform and “objective” as most people believe. She portrays a lending process in which subjective data such trust and a borrower’s “story” can play important roles even before underwriters such as Richard even begins analyzing the numbers. As Guy Stuart (2003) asserts, even though there are set rules and guidelines in
banking, judgment is a critical component of the lending process and is in fact one of the main tasks of an underwriter. Kia argues that in general, since the underwriting guidelines are not hard and fast rules, subjectivity and leeway can play a critical role in the credit culture of the bank. This is because the flexibility in the guidelines allow bankers to “work the numbers” in way that make the standards and policies of one bank very different from another. For example, as Kia explains, the subprime crisis was caused in part by “loose” underwriting that was allowed under the leeway that the bankers took under the underwriting guidelines:

The thing to look at, for how you look at loans and they’ve changed over the years depending on the market. For example, now Broadway’s actually doing well in the current market in California because they’ve always had, they’ve always been on the conservative side, like they wanted full docs [documents]. Like they would only do loan to value ratios of a certain number, which is probably on the lower side and so back in the mid ‘90s, early 2000s, people didn’t want to do that because there was all these cheaper ways that you can get more value for your money theoretically because of how they worked the numbers. But what it’s turned out to be is that it was all built on the frenzy of the market. So when the market turned, a lot of these people with these deals are losing their homes in these really bad mortgage loans where they’re paying a lot and the interest is high and they’re adjusting and they can’t afford them and now Broadway’s actually attractive because people are just looking for like straight, traditional loan[s]. (Personal Interview with Kia 2007.)

According to Kia, despite banking regulations, there can be different sorts of inconsistencies found among banks and these inconsistencies can imply different sorts of leeway that banks can use. Therefore, numbers are not objective because bank agents use them in their own way and the way in which the bankers internally set policies defining what is “risky” is subjective. In Kia’s perspective, the leeway and judgment people use in the lending process are as critical as the “number crunching” part of banking—although this is often not highlighted when most people talk about the process. This is because most people do not realize how the “objective” numbers reflect the subjectivities (e.g., judgment and values) that people attach to them. Kia argues that culture and subjectivity play important roles in a largely disembedded lending industry by focusing on how risk and trust are shaped by culture and subjectivity of bankers. Kia explains:
[Banks] set their own internal guidelines for how they do lending. There are like federally mandated things that they have to follow like they can’t discriminate, they can’t—like there’s a certain ratio of money that they can lend out at one particular time compared to what their reserves are, but if you think about it, that’s why a lot of these mortgage companies, like in California and across the country are going out of business because they were able to set their lending rules so you have a situation where someone like a Countrywide was able to do these kinds of subprime loans because they were internally deciding, ‘Okay, these are the types of loans we’re going to do. These are the types of guidelines that we’re going to have, we’ll let somebody do a loan for up to 100%, 90% of the value. Whereas in other banks, why don’t we do up to 70% or 80% and so it’s all set internally. So when they say, ‘Let’s go to loan committee.’ The loan committee knows what the guidelines are and they’ve been set by the bank regulators within the bank and that’s how the lending process is pursued. So right now, we’re only going to do this interest rate, we’re only going to do this loan to value rate, we’re only do people that have full docs [documents] as opposed to stated income, which is something we could have done in the past...And that’s what allows some banks to be successful and some banks not be successful and that’s why there’s been situations where the federal government has come in to regulate to protect people’s investments...But technically, you know, it’s all set internally.

While Richard provides a picture of objectivity, Kia explains how numbers can discriminate and how this discrimination is pervasive—specifically through the bank’s arbitrary definition of what is considered “risky.” Banks are not all the same because of their different banking cultures—which are integral in their operation because it shapes the bankers’ definitions of risk and trust. Subjectivity can “seep” into the operation of the bank with the setting of internal guidelines, which is shaped by each bank’s culture. Kia argues that a bank’s culture is shaped by issues of risk and trust and that this complicated interrelationship of factors affects how many loans a bank gives, at what rates and to whom. Even though the guidelines are similar and banks based their underwriting processes on the same criteria such as the income, liquid assets, etc., the banking culture can still make such a big difference on who gets a loan among banks because the key is to understand “on what margin you’re going to let people slide.” Kia explains using an example from her own experience:

Both of my properties are from mortgage companies that allowed me to do stated income so I didn’t have to prove my income. As long as I could show that I could pay...they allowed me to say what my income was. I just had to have so much in reserves to prove that if anything—that I could actually cover the [note]
for like three months or something. I didn’t necessarily make that [amount of money she stated as her income level] all the time, but for somebody who was self-employed who didn’t have a consistent income, it would be helpful. But there are some banks who would have never said stated income. They would have said, ‘No, you have to have full docs [documents]. I need to see your tax return, I need to see your bank statements, I need to see a ‘P and L [statement]’ if you have a business. And it’s a lot more rigid. So what they’re looking at is the same, but how much they will sort of operate on the more riskier [sic] areas is really the difference. So it’s more of a risk to say that, ‘Okay, I’m going to believe that you actually make this amount of money.’ And if you can show that you have this amount of money in the bank in terms of savings…Then they’ll look at your credit: ‘Oh, she pays her bills on time.’ In this case, at Broadway, they want to see your credit, they want to see your bank statements, they want to see your tax returns. So in that respect, you have two banks that are asking for the same things to a certain degree. But this bank is being a little more conservative in terms of how much they’re willing to let the unknown slide, versus this one that is more willing to do that.

Moreover, due to the differences and the amount of subjectivity at play in each bank’s banking culture that affect the various ways banks can operate, racial disparities are created because, according to Kia, most mainstream banks have not historically had “good” relationships with racial minorities. Since banking is about relationships and trust, these mainstream banks will tend to not approve loans to minorities. Kia explains how she believes why racial disparities persist in the lending industry:

Well, I think it’s more about an understanding of your clientele and your customer base. So, for example,…it’s about relationships at the end of the day. I mean, banking is all about relationships…I’m going to speak very, very candidly. I think that a lot of the sort of mainstream institutions that you might sort of consider as candidates for discrimination against people of color, don’t necessarily have a lot of relationships with people of color that are good. And when I say ‘good,’ I mean they see their ability to pay bills on time, they see their ability to do good business, they see their ability to manage their finances. So there’s a tendency to be stereotypical and tap into the stereotypes of being African American that everybody has bad credit.

Kia asserts that sometimes even in instances where the client has a good credit history, there is still some reluctance on the banker’s part to extend credit to people of color. She explains what she believes to be the psychology of the typical mainstream banker:

67 A P&L statement is also called the Income or Earnings statement. It summarizes a company’s revenue and expenses and allows the banker to see the company’s profit or loss.
I think it becomes a question of everyday is a new day and so do you want to be the one to give them this—to take on this risk. That’s one way of looking at it. Or it’s: ‘I have this African American person in front of me here and this white guy in front of me here and maybe they match up pretty much on paper. But who do I know better? And even if you don’t know them personally, you may have an affinity then because of their [the white client’s] experience, you may relate to more so than this experience [with the African American client] because you have no idea what this experience is. You probably have never been around black people, you’ve never been in a black person’s home, you only have the images you see on television, the things that—and not that it’s not true. I mean, there are a lot of people that are black who have not done a good job with managing finances. But I think it’s a function of, you go with what you know…On paper, you may not necessarily see the person, but when you come in, they do talk to you, they’ll [the bank staff giving the loan] be able to tell [that you’re a minority]. (Emphasis mine.)

In sum, whereas Richard’s explanation represents the scholars who believe that it is possible that personal biases can be (but seldom are) introduced into the objective and relatively uniform underwriting process; Kia’s description of the lending process captures the main themes of the theorists who argue that subjective, cultural biases “enters” the neutral lending process. Kia’s description of how racial disparities are created in a disembedded mechanized system follows the basic premise of the cultural affinity hypothesis: she identifies culture as the mechanism in which the racial biases of bank agents are used to explain how race “seeps” into the lending process. Kia argues that racial disparities exist because mainstream bankers in general “don’t necessarily have a lot of relationships with people of color that are good.” And as a result, they do not understand the customs and rationale of people of color’s life choices (i.e., financial choices). Therefore, mainstream bankers are not comfortable and do not trust the decisions of people of color. Since it does not fit into the “safe and sound” schema that the banker has, then it is considered high risk or at least riskier. In other words, Kia argues that in the context of the disembedded industry, bankers will also rely on “cultural know” or race (i.e., “6th C”) in order to make decisions even though culture is not supposed to be part of the equation. Furthermore, as opposed to Richard’s views, Kia argues that banking agents are not only expected to use their discretion and judgment on a daily basis, but that there is a great deal of variation that can exist...
under banking guidelines—thereby reflecting the significant role of bank culture in shaping the credit assessment system. Kia’s views closely resemble the cultural affinity hypothesis and therefore, she primarily reduces the creation of racial disparities to individual psyches or preferences of bank agents. However, she also hints at the systemic and institutional causes of racial disparities when she discusses the pervasiveness of subjectivities, racial discrimination and different bank cultures. That is, in her overall depiction of the cause of racial disparities, she moves beyond the cultural affinity model by presenting disparities and subjectivities that are insidious in the entire system instead of only focusing on the particular “borderline” cases that Hunter and Walker (1996) refer. The systematic and pervasive biases Kia alludes to is what the third group of theorists using the constructivist approach would argue as the key in understanding the root of financial disparities in the post-CRM era: racial biases do not “enter” the lending process in certain moments through the individual preferences or even the culture of the bank, but racial biases are part and parcel of evaluation process.

Although the high interest rates of the late 1970s and the Savings and Loan (S&L) crises in the 1980s had negative impacts on revenue generation, BFB’s ability to survive over six decades is in part due to their conservative lending approach. Broadway did not take advantage of the Financial Services Modernization Act of 1999, which allowed financial institutions to integrate, consolidate and invest in other businesses such as insurance companies, brokerage firms and commercial banks. The Act also paved the way for securitizing, or bundling loans for sale as collateralized debt obligations (CDOs) on Wall Street. The Act in a sense provided the legal mechanisms for subprime loan originators to sell their high-risk loans as CDOs on the open market. (For more, see Sabry and Scholpfocher 2007). BFB was not involved in high-risk lending and did not bundle and sell their loans to the secondary market. Therefore, BFB’s low default rate and zero subprime record are good measures of the quality of loans they provide since
they do not have the need to “get rid” of bad ones as other banks who participate in subprime securitization.

BFB has historically been a portfolio lender, meaning that the bank keeps the loans they originate “on-the-books.” The loans that BFB keeps in its portfolio do not necessarily belong to borrowers who are financially incompetent. Portfolio loans can simply mean that the borrower’s life situation did not meet the standardized automated criteria outlined in automated underwriting systems used by Fannie Mae and Freddie Mac. Broadway also retains servicing rights to their loans and therefore has total control of their loans – from origination to servicing to full reconveyance. This allows BFB to immediately intervene when a borrower experiences financial difficulty.

Through their portfolio lending, BFB developed a niche so they can meet the needs of the community. The bankers at BFB use their portfolio loan programs to circumvent processes that tend to eliminate otherwise financially sound borrowers as “risky” because they may not have the markers of criteria used by mainstream industry that indicate dependable and trustworthy borrowers. But, as I will elaborate below, BFB created the portfolio not to circumvent the Automated Underwriting system per se, but to be inclusive to those whose life situations do not fit into the criteria of the market. This is significant because it shows that under the LOR, BFB is still responsible for the risk exposure and has a vested interest in each loan they make is safe and sound. This is in stark contrast to the subprime loan origination model of mitigating risk by imposing fee and rate adjustments, surcharges that encourage predation. (For more, see Hernandez 2012:185-188.)

Lenders in the United States have traditionally used what Stuart (2003) calls a “one-size-fits-all” approach to lending, leaving those who do not fit such lending programs unable to secure a loan. Fannie Mae and Freddie Mac’s conventional programs symbolize this segment of the market. Some lenders began offering subprime loan products as a way of providing an alternative
to conventional loans. Subprime lenders wanted to sidestep the strict guidelines of Fannie Mae and Freddie Mac and therefore offered those who do not qualify for prime rate loans from prime lenders subprime loans at a higher rate. As Stuart (2003) describes, “Borrowers are offered varying interest rates contingent on what risk category they fall into—A-, B, C, or D” (197).

Subprime lending was part of the most lax loan products on the market. Subprime lenders did not require the borrower to provide proof of income and not only were they given to borrowers who did not have the capacity to repay the loan, but the loans were given on misleading terms that often meant the repayment ballooned after an introductory period. Subprime lenders sold their loans to the secondary market to gain liquidity. Stuart writes,

Uniformity is good for business. So long as lenders need to access the capital markets to sell or borrow against their mortgage loans, they will have to use an underwriting system that is generally accepted in the capital markets. General acceptance is necessary if investors are going to be able to buy and sell loans, or mortgage-backed securities, as and when they like—if they are going to be able to benefit from a liquid market in these loans (196-197).

When banks or lender sell those loans to they originate to the secondary markets, they are also selling off the risk exposure of those loans.68 Therefore, there is little incentive or responsibility for the lender to ensure that the loans they are originating are safe and sound. These loans can be seen as mere vehicles to generate profits from fees and to benefit from a liquid market.69

A plethora of studies on HMDA data such as National Fair Housing Association (NFHA) audits, disparate impact studies and show that applicants of equal standing but of different races are not treated the same. Stuart asserts that the subprime system lends itself well to abusive, overcharging and predatory lending as it has been pushed onto minority communities. Stuart

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68 Sometimes lenders sell pools of loans with a “repurchase agreement” that provides a limited guaranty that requires the lender to buy back loans that exceed a specified default rate threshold.
69 In addition to being lucrative products that does not expose the institution to risk of loan defaults, subprime mortgages were attractive for lenders because the conventional loans required large down payments whereas subprime loans did not. Furthermore, lenders who only offered Fannie Mae and Freddie Mac products were losing market share to subprime lenders. (For more, see Hernandez 2012:95.)
writes, “Today subprime and predatory lending are likely to be allowing lenders to collect a new form of black tax—that is, interest payments that are higher for blacks than they are for whites with the same risk profile” (2003:200). He documents how subprime lending in black communities were quickly established through the explosive growth of mortgage brokers who may have already been established in the markets. Therefore, “mortgage brokers, who can switch between lenders while maintaining existing market relationships with real estate brokers, can undo the link between a lender and the market” (Stuart 2003:169). The mortgage brokers represent another link in the chain of responsibility of whether the loan to the borrower was safe and sound. The securitization of loans, the ability of the banks to repackage the subprime loans as mortgage-backed securities and sold to investors on the market so they are no longer the fiduciary or moral responsibility of what happens to those loans.

Hernandez (2012) goes further and argues that subprime was not to help democratize credit (as Greenspan may assert), but instead it was a way to extract money from the poor. The subprime model does not help fix the problems of conventional loans and therefore does not truly make credit more democratized. For example, the borrowers who do not fit the conventional loan criteria are seen as unreliable or morally corrupt, an underlying assumption present in both the conventional and subprime models. However, interviews with mortgage brokers reveal that this is not accurate (Personal Interviews with Albert Martinez 2007 and Daniel Flores 2013). Instead, the standardization process creates categories of people who are rejected.

Non-traditional cultural differences can create life situations that can cause a borrower to be placed in such a category. Different cultural rituals of borrowers do not lend themselves well to building a strong credit history, thereby decreasing their chances of qualifying for loans under the mechanized system of credit assessment. For example, in some Latino cultures, “pillow

70 Alberto Martinez has been working as a loan officer for approximately twenty years and Daniel Flores has completed interviews with mortgage brokers and has had over thirty years of experience in real estate and mortgage brokerage experience.
“money” is a common phenomenon where people who are distrustful of banking institutions keep their cash stashed under the pillow or mattress (Personal Interviews with Alberto Martinez 2007 and Daniel Flores 2013). When this happens, those who use the “pillow money” system do not engage with the financial industry and build credit history because they may not use credit and they pay bills with cash, which lowers their FICO scores. Thus, the denial of access to mainstream banking products does not always mean a substandard or abusive history of credit privilege. It can mean not having traditional credit history required by standardized AU [Automated Underwriting] because they simply have yet to function in that capacity. Also, many people in minority communities have good credit but do not have the exposure to safe and fair credit practices due to the lack of banking in their communities. For those reasons, cultural differences can reveal serious methodological problems in measuring the creditworthiness of those borrowers isolated from mainstream banking. AU is designed for only certain people without considering a borrower’s social situation that may not be considered by underwriting guidelines. “Many residents in minority communities do have contact with reputable mainstream credit programs so portfolio lending, which is really an opportunity to include ‘non-traditional’ borrowers into modern banking, has to do with how we view people and how we choose to reduce the cost of reducing risk” (Personal Interview with Daniel Flores 2013).

BFB uses its model of banking as a form of inclusion to an industry that has used lending as a form of exclusion or predatory extraction (e.g., payday loans, subprime loans, etc.) that has historically plagued minorities. Therefore, the financial activism model at BFB, through their portfolio lending program, is a type of community defense mechanism. It helps to prevent predatory capital extraction from the community. More important, it is a proactive response to social exclusion. As we will see in the following sections, BFB is manipulating market conditions not to exclude, like segregation, but to include. Furthermore, even though BFB’s model is similar to the subprime lending model in that they both can be seen as an alternative to
the “one-size-fits-all” conventional lending system, BFB’s model includes those who were excluded from conventional loans by providing loans that build wealth instead of extracting wealth as subprime loans do. In sum, even though BFB did not securitize and sell their exposure to risk of the loans they originated to the secondary market, does not mean BFB actors did not look at risk. In fact, as the following sections will describe, BFB actors not only looked very closely at risk, but they tried to control it through alternative means. BFB actors were about to achieve this because the LOR is based on communication, responsibility and exchange. It is a feedback loop; a living logic that allows for BFB actors to take responsibility of the safe and soundness of the loans they originated and for the welfare of the excluded in their community.


While deficient information theorists such as Hunter and Walker (1996) talk about the bank agents’ use of biases to make lending decisions, theorists using the constructivist approach focus on the implicit racial biases that permeate the supposedly fair evaluation process. Instead of seeing discrimination as “entering” the alleged unbiased loan process at the point where the agent is faced with deficient information, these theorists argue that we should focus on how discrimination is embedded or built into the structure of the financial system. To them, the cultural affinity and other deficient information theorists are missing the point; constructivists argue that we should look beyond the individual agent’s cultural comfort and see how the entire system is skewed toward to benefit particular groups. In other words, constructivists such as Stuart (2003) argue that these biases are actually already embedded in the system so that despite the intention of the individual agents, the racial biases have been built in and continue to be replicated. Hence, the issue of racial disparities cannot be reduced to an individual problem, as it is a social issue that is caused by dynamics beyond individual psyches and actions.

Guy Stuart’s (2003) work on the mortgage lending industry is a prime example of the
constructivist approach. In *Discriminating Risk* (2003), Stuart argues that even though theorists such as the cultural affinity theorists are correct in identifying “culture” as a problem in creating racial disparities, he points out that bankers act within the confines of culture and institutions. Stuart argues that subjectivity does not just “seep” into the lending process: it is omnipresent and built into the very fabric of the supposedly “objective” mechanized scoring system of the lending industry because of the notion of embeddedness—the idea that social relations and biases are imbued in economic transactions. The numbers used for mathematical calculations of risk are racially skewed and therefore, the standardization system is not race-blind or fair. Stuart argues that the entire lending industry’s accepted definition of risk is based on racial discrimination and therefore even if an individual agent is not personally racist, she may still end up discriminating against minorities simply by following the industry’s rules. As Guseva and Rona-Tas (2001) argue, the calculation of probabilities is not an innate human ability, but a social capacity that is enabled by institutions that can create stability over time, categorize events properly, and allow for verification and the accumulation of information. Therefore, the translation of uncertainty into a measurable form of risk is not an innate human ability, but a social capacity that is enabled by such institutional arrangements. In the same vein, Guy Stuart’s work shows how the calculation of probabilities in the mortgage finance industry is premised on a social capacity also enabled by a similar disembedded institutional arrangement, one that is built on racial considerations.

An example of this is how the leaders who made the appraising process uniform in the 20th century had their values of racial-ethnic and income homogeneity in neighborhoods set into the appraisal process insofar that even today, appraisers base the “stability” of a neighborhood on this homogeneity criterion. This “stability” directly affects the definition of risk because the racial minority applicants living in racially mixed neighborhoods were automatically deemed “riskier.” In the early to mid-20th century, the FHA used the homogeneity criterion to deny
African Americans federally insured loans. (From 1932 to 1962, 98 percent of FHA loans were made to whites.) As a result African Americans were excluded from the trillions of dollars of wealth that homeowners made through the appreciation of their homes (Lipsitz 1998). Stuart shows how such racial biases are prevalent in the industry and therefore argues that systemic racial disparities in loan denials are a reflection of the failure of the system.

Stuart’s constructivist approach is especially important because it reveals the biases of a system that is assumed to be fair and objective. Because the mechanized model of credit assessment is disembedded and relies on numbers instead of relationships that are built on social and geographical ties, the process is assumed to be race-neutral. Therefore, the inequities that have been created by the coupling of race and space are made invisible. For example, we can look at Stuart’s discussion of credit scores, such as the FICO score, to show how these biases are still carried forth practically unnoticed. Lenders use credit scores to predict the likelihood of default and these scores form the basis of whether or not a borrower will qualify for a loan. Although credit scores are supposedly only reflect the individual’s character and credit history, research has shown that there is a correlation of credit scores with race, income and type of neighborhood the individual resides. As quoted in Stuart’s explanation on these correlations, Avery et al.’s (2000) study concludes, “Although bureau scores are often developed without reference to local economic or broader regional information, our results suggest that they may be affected by such factors” (544). That is, Avery et al.’s research shows that credit scores include factors that are outside the individual’s characteristics and/or factors that are out of the control of the applicant (Stuart 2003: 173).

Stuart’s work using embeddedness disrupts the dichotomy of the model in which it is presumed that the banking relationships that are disembedded, quantitative calculations of risk are “objective” and unbiased while those that are embedded, are subjective and biased. This is because under his approach, all economic transactions have the “social” and “subjective”
embedded in them. This sheds light on how racial disparities continue to be reproduced. Furthermore, Stuart’s work also highlights the biases of the system by showing the centrality of the definition of risk in the loan industry: once the industry began uniformly adopting the same definition of which populations are “risky,” then the entire industry began excluding those populations because the industry as whole relies on a similar model of credit evaluation. This insight on the skewed definition of “risk” helps deconstruct the reproduction of inequality in the lending industry. In fact, in order to address the racial disparities that come out of the inaccurate definition of certain populations as inherently riskier, Stuart recommends the redefining of risk in the industry. BFB engages in a form of redefining of risk in their strategic embedded model of credit evaluation.

V. Strategic Embeddedness: Managing “Risk” by Keeping Some Uncertainty as Uncertainty to Resist Marginalization

In order to resist the embedded biases against the marginalized population they strive to serve, BFB agents engage in what I call “strategic embeddedness,” a model of credit evaluation that allows BFB agents to use both strategies in the embedded and disembedded models to manage the possibility of delinquency. As discussed earlier, in the pre-1970s relationship banking model, social ties and trust were used to mitigate uncertainty. In contrast, in the post-1970s, banking became disembedded and bankers began using a mechanized model because the lending industry was able to transform uncertainty to calculable risk and therefore “objective” knowledge or statistics were used to manage delinquency. Thus, while the US banking industry became increasingly disembedded in the latter part of the 20th century, BFB adopted the strategies to calculate risk (e.g., by using FICO scores) while keeping their embedded model of credit evaluation by continuing to build relationships with the community and relying on trust and the traditional 5 C’s to supplement their evaluation. In other words, instead of solely relying on statistics to indicate risk, BFB chooses to strategically move away from the disembedded model
and also rely on the embedded model. By choosing to use uncertainty instead of risk and thus relying on a version of the supposedly outdated model of relationship banking, BFB agents cultivate social relationships and trust to lower the chances of delinquency. Therefore, BFB redefines “risk” by keeping uncertainty as uncertainty instead of transforming uncertainty into mathematical calculations of risk.

In sum, while Stuart’s work shows how the lending industry’s “objective” model is actually subjective and biased; BFB agents use subjective, embedded relationships to neutralize the hidden biases of the mechanized model of credit assessment. Thus, BFB’s model of evaluation is in fact unbiased despite their strategic reliance on social relationships and trust. In order to resist the industry’s accepted definitions of “risk” which excludes the population of people BFB is interested in expanding opportunities, BFB counters the racial biases embedded in the standardized system by fostering ties with the community to build social relationships, actively cultivate networks and “realize” or deploy social capital—ultimately, to build trust. Furthermore, from Omi and Winant’s racial formation perspective, what BFB actors are doing when they use the strategic embeddedness model is resisting “racial common sense.” Omi and Winant argue that the process of becoming a citizen entails the individual learning to “see” and make sense of race by attributing reified or “natural” social meanings and qualities to biological features. They call these collective preconceptions of individual’s characteristics, behavior and physical appearance as “racial common sense” (Omi and Winant 1986:60). By employing their own version of credit assessment that focuses on the individual instead of relying wholly on the mainstream industry’s standardized model that categorizes individuals into groups, BFB is resisting “racial common sense”—subjective notions that is often understood as being non-existent in the so-called objective financial world.

The Strategy of Embeddedness in a Disembedded Industry

BFB’s strategic use of embeddedness in a disembedded industry is rare. As seen in the
literature on mainstream financial industry, there are only a few studies that have documented the
current disembedded financial industry’s strategic use of embeddedness. (Michel Ferrary’s (2003)
case study on two mainstream French banks’ attempt to court the business of a particular ethnic
group showed that the bank using ethnic ties and social relationships successfully mitigated
delinquency; while the other bank using the mechanized system suffered significant losses from
defaults. In “Uncertainty, Risk and Trust,” (2001), Guseva and Rona-Tas’s study of credit card
systems in the U.S. and Russia not only showed how Russian credit card companies use
embeddedness, but why it is important to differentiate the two models of disembedded risk and
embedded uncertainty. As mentioned above, Guseva and Rona-Tas (2001) differentiate risk from
uncertainty: the “risk” (or mechanized banking) model uses numbers and statistics to mitigate
delinquency while the “uncertainty” (or relationship banking) model relies on trust. It is
important to differentiate the two models of disembedded risk and embedded uncertainty because
there are particular consequences of challenges associated with each model’s characteristics.
Borrowing from Guseva and Rona-Tas’s (2001:628) chart, I present each model’s characteristics
and the implications of such characteristics on decision-making processes and resulting
transactions below (see Table 7.1).

The authors argue that in the case of Russia’s nascent credit card industry, it did not have
the disembedded and institutionalized system the U.S. does in order for credit card companies to
translate uncertainty into calculable risk because it did not have stable institutions or uniform
categories that allowed for verification and for the accumulation of information over time in order
for probabilities to be calculated. Since Russia lacks such an institutional context, they are unable
to transform uncertainty into probabilities and therefore can only rely on trust in order to reduce
uncertainty. Therefore, Russian credit card companies resort to relying on the strategy of
embeddedness by using social ties that “anchor” the cardholder to networks, thereby increasing
the cardholders’ accountability and reducing the uncertainty of default.
In the context of BFB, the bankers are choosing to resist the disembedding process by using the strategy of embeddedness not because they lack the institutional context to reduce uncertainty into calculable risk, but because the disembedding process inhibits the bank from fulfilling its mission to assist the marginalized. (Furthermore, as I will elaborate later, BFB agents find this model of dealing with uncertainty as fair and productive—as they too use their social ties to “anchor” the applicants and reduce the possibility of default.) As seen in the chart above, this is because when the lending process is disembedded, the lending institution focuses on processing as many cases as possible that are homogenous and classifiable and rely on routinized calculations of data that is survey-like instead of deep and diagnostic. On the contrary, as an institution that is resisting the disembedding process by holding on to their embeddedness in their community via their social ties, BFB’s lending often relies more on trust than other mainstream financial organization because they rely on social networks to reduce their uncertainty in part because the cases that the marginalized customers present are often heterogeneous and unique and therefore BFB agents have rely on their judgment to assess the situation. Because their customers are not part of the mainstream and BFB bankers are committed to helping those who are on the margins, they focus on solving the problems instead of framing the problem to fit a uniform system as disembedded organizations often do. Since disembedded organizations often have few social or physical ties, they can be headquartered in any given location. But because BFB chooses to be a strategically embedded organization that relies on social relationships to help extend opportunities to the South Los Angeles community, it has remained primarily in the South Los Angeles community. This is important because the strength of BFB’s social relationships is dependent on their geographic ties to the community because they are only able to provide customized service (i.e., getting to know their clients, their issues and build relationships with them, etc.) if they remain part of the fabric of the community.
Table 7.1: Characteristics of the Pre-1970s Relationship and Post-1970s Mechanized Banking Models. Adapted from Guseva and Rona-Tas (2001); italicized entries are my own.

<table>
<thead>
<tr>
<th>Aspect of Lending</th>
<th>Pre-1970s Relationship Banking</th>
<th>Post-1970s Mechanized Banking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aspect of Lending</td>
<td>Trust</td>
<td>Rational Choice</td>
</tr>
<tr>
<td>Form of Ignorance</td>
<td>Uncertainty</td>
<td>Risk</td>
</tr>
<tr>
<td>Preconditions</td>
<td>Social Networks</td>
<td>Formal Institutions</td>
</tr>
<tr>
<td>Sources of Knowledge</td>
<td>Personal knowledge (i.e., the 5 C’s); Cultural knowledge (i.e., the “6th C,” “color”)</td>
<td>“Objective” knowledge: numbers, statistics, probabilities</td>
</tr>
<tr>
<td>Trustworthiness</td>
<td>Embedded trust</td>
<td>Generalized trust</td>
</tr>
<tr>
<td>Decision-Making</td>
<td>Heterogeneous, dissimilar, unique</td>
<td>Homogenous, classifiable</td>
</tr>
<tr>
<td>Information</td>
<td>Depth, diagnostic</td>
<td>Width, survey</td>
</tr>
<tr>
<td>Reduction of Complexity</td>
<td>In solving the problem</td>
<td>In framing the problem</td>
</tr>
<tr>
<td>Process</td>
<td>Judgment, discretion</td>
<td>Routinized, calculation</td>
</tr>
<tr>
<td>Decision</td>
<td>Case specific</td>
<td>Group specific</td>
</tr>
<tr>
<td>Resulting Transactions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quantity</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Nature</td>
<td>Embedded</td>
<td>Disembedded</td>
</tr>
</tbody>
</table>

The Importance of Social Relationships in the Lending Process: Access to Social Capital and Credit

It is important for BFB to continue using the embedded, relationship banking model because this strategy opens up access to power to historically underserved populations through social capital and trust. Dymski (2001a, 2001b), Li (1997), and others’ (Li and Dymski 2007; Li et al. 2001, 2002) research on ethnic banking has shown that bankers use their social capital in mitigating uncertainty in ethnic banks. Ethnic bankers rely on relationship banking (or

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71 In “Immigration, Finance, and Urban Evolution: An Illustrative Model, with a Los Angeles Case Study” (2003), Dymski shows how Chinese ethnic banks in Los Angeles have played a leadership role in the development of Chinese American communities in Southern California and have been able to resist a income-based spatial separation model that many other communities experience through the ethnic bank’s success in character loans. Also, in “Does Relationship Lending Still Matter in the Consumer Banking Sector?” (2005), Holmes, et.al show that relationship banking in community development credit unions is critical in extending consumer loans for low-income and traditionally underserved populations who have imperfect or nonexistent credit histories.
“character” loans) to help those without traditional signs of good credit obtain a loan. Ethnic bankers build this social capital by extending what Dymski and Li call an “automatic extension of credit,” which requires a certain amount of trust. For BFB agents, the “automatic extension of credit” is a result of a process that takes the form of an effort to listen and extend a sense of compassion and empathy that is rooted in the LOR. (See Ch. 4 for more.) Because BFB agents take the time to understand why their clients’ credit histories are unconventional, clients are more likely to gain the trust of BFB agents. Taking the time to listen makes applicants’ chances of realizing social capital and gaining trust possible in an industry that often does not make such allowances. Trust is important in the lending process because as Kia explained above, with trust, the applicant is more likely to get the bank to let things “slide” and get the “breaks” that others may be already getting in the mainstream industry and/or allow the client to have access to people in positions of power, such as the president of the bank, to have urgent problems solved.

In the following passage, Kia shows the importance of the bank’s form of relationship banking when she talks about her “selling points” to potential customers, which is centered on the notion of superior customer service. As discussed in Ch.5, customer service is a significant theme at BFB for several reasons. It shows the LOR in action. “Customer service” is another way of describing the professional activism done at the bank. That is, everyone at BFB knows how to provide a type of personalize customer service because encoded in “customer service” is the dual goals of profit and community activism. Second, “customer service” has in large part ensured BFB’s ability to continue its mission for the past 60 years since it inculcates the employee with the LOR—shaping their judgment, decision-making and action at the bank. Third, since customer service is critical for BFB’s continued mission, the way in which it gets passed on to employees is also important. Customer service is something that has to be trained into people. Therefore, as seen in Ch. 5, the tradition of mentoring and training of employees is essential to the bank. Finally, this discussion of customer service is important here because Kia’s description
of “customer service” shows how BFB’s model of credit evaluation provides customers who are often marginalized with access to power through social capital and networks, thereby providing a specific example of how “customer service” how the employees put the LOR into practice.

Customer service is definitely the top, the customer service and the fact that you can get me and you can get the President of the bank on the phone. I mean, that can go a long way for somebody because you know who the decision makers are and if you are in a situation where you need to have something done very quickly, to have that type of relationship and that access is important. Secondly, we’ve been around a long time, we’ve been doing this stuff in the community for a long time, so aligning yourself with an institution has that track record is also a big selling point.

And lastly, just the services that we offer, I mean, we are competitive in terms of savings rates, for stuff on the savings side. On the business side, because of our business products—we’re offering on-line banking, we’re offering debit cards, so you can’t—so we have the same types of products that you can get someplace else.

However, in addition to the product services you also get enhanced customer service. You also get that access. So why not be in a situation with somebody who is giving you what you need, but also that additional quality service on top of that. So I would say that those are probably the three things that we say. Because you know, at the end of the day, somebody who comes in and banks with us is coming here not because they have access to 10 million ATMs. We just don’t have that, you know. We’re not a B of A [Bank of America], we’re not a Wells Fargo, because we just don’t have that. So you’re coming here because you’re really looking to develop a relationship with a bank that can be with you throughout the various stages of development of your business, of your life. You know, whatever it is you’re working on.

BFB agents can offer the marginalized with great customer service, which really is about providing the client with a type of relationship banking that provides the clients with access to positions of power, credit, social capital, trust—and ultimately, with power—the ability to get your way, which, in this case, can mean getting a loan approved. (This is yet another example of how and why BFB is engaged with empowerment and not charity.)

BFB may not have all the business products that mainstream banks offer, but historically BFB has been on par with rates they offer on the deposit side. But strongest selling point has been and still is “enhanced customer service”—a type of customer service that allows clients who
are seen as “marginal” to mainstream institutions access to people in positions of power. This is how marginalized community members get access to capital through BFB where they may not in mainstream institutions. Clients usually get access to people in positions of power through their social capital. But for those who are already deemed marginal by the so-called “objective” criteria used in the finance world, this type of access is rare. The ability, as Kia puts it, “to be able to reach the President or CEO of the bank” is very important because sometimes even when a person such as a manager is willing to help, their ability to make decisions is hampered by their institutional position. As Eric explained in the previous chapter, having access to the president is crucial because sometimes things do not get done unless the people in positions of power make it happen—as Eric reminds us: nobody can make transactions “move” the way the president can. Recall Unity Charter School Director Deloris Washington’s testimony in Ch. 4 in which she discusses how with the help of BFB CEO Paul C. Hudson, her charter school was saved. Furthermore, the literature shows how when it comes to loan applicants who are on the margins of approval, minorities are more likely to be denied than whites (Hunter and Walker 1996). Therefore, the model that BFB engages in is an example of one strategy of providing such minorities a financial opportunity, or a “second chance.”

**The Meaning of Relationship Banking in the Strategic Embeddedness Model**

In this section, I explore the meaning of “relationship banking” at BFB under the strategic embedded model. I delve into how and why BFB agents use trust and the clients’ “stories” they learn through conversations to mitigate the chances of delinquency and how and why this creates access to positions of power. By doing so, I show BFB’s model of strategic embeddedness is different from other models that rely on culture to explain the role of race in the lending process. I argue that contrary to the popular belief that relationship banking is inherently biased and riskier, BFB’s model can be fair and not necessarily riskier because it is based on the LOR, which encapsulates the dual goals of profit and community, social justice and
empowerment. The clearest difference in BFB’s type of relationship banking can be seen in the nuanced way race plays in role in the model.

As seen in Table 7.1 (above), BFB has typical characteristics of a small bank using the embeddedness model, but what makes BFB’s model of strategic embeddedness different from non-ethnic community banks is that it is based on the LOR. As seen in Ch. 4, Richard describes large mainstream as functioning as if on a “conveyor belt” and therefore do not take the time to be flexible like small ethnic banks such as BFB. In small banks, each customer is valuable and thus, bankers at such bank often will take the time to find ways to mitigate a potential borrower’s weaknesses. But being more flexible does not necessarily mean that small banks like BFB engage in more risk. Richard explains:

I think because small banks have the relationships that the big banks don’t have with the borrowers so it’s relationship driven. Like in the previous small bank that I worked, the Middle Eastern one, we had no defaults because everyone—the Middle Eastern culture, you know, recommends each other so we had no defaults [in the 15 years the bank was in business]. It’s [building a relationship is] important in every industry. Customers want to feel they’re special and you know, like in other businesses, you want to make them feel special so they can recommend somebody else.

In BFB’s “strategic embeddedness” model, BFB agents rely on both the quantitative model of risk and the qualitative model of uncertainty. The model does not expose the bank to increased chances of delinquency because BFB agents use trust to mitigate uncertainty through the expansion and cultivation of social networks and social capital. By doing so, BFB agents open up financial opportunities to those who often are excluded under the mainstream disembedded model.

BFB’s model shows that relationships in banking are still important in a disembedded industry because it serves as an important and reliable way to improve the financial opportunities of historically excluded groups. BFB’s prioritizing of social relationships in their evaluation process (which provides marginalized clients with access to social capital and credit that they
would not normally have had), is the key in producing a neutral assessment of risk and trustworthiness in an industry that it largely disembedded. Based on the LOR, the BFB’s particular form of relationship banking, “strategic embeddedness,” is neutral. The model is unbiased because unlike the cultural affinity hypothesis, statistical discrimination and the disembedded calculations of risk, the strategic embeddedness model evaluates each applicant as an individual and the statistical calculations of the past actions of those in the same group do not have bearing on that individual’s application.\(^{72}\) Instead, when an applicant does not fit the mainstream’s mold and therefore does not bode well under the mechanized model’s criteria, BFB relies on networks, social capital and trust to mitigate uncertainty. Because trust is such a critical component in the strategic embedded model, I will elaborate on different forms of trust below.

**Trust and Conversations in the Strategic Embedded Model**

BFB agents use a form of embedded trust that focuses more on the individual applicant and therefore the applicant is less likely to be judged by the actions of others. Trust is a crucial aspect of the lending process because as Stuart shows in *Discriminating Risk* (2003), perceived risk is mediated by trust. As seen in the chart above, trust in a disembedded model is different from that of an embedded model. Generalizable trust comes out of a belief in the mathematical process in which the statistics and probabilities were generated in a disembedded model. For example, the usage of FICO scores reflects a generalizable trust because statistically, the group of borrowers in that category reflects that they are “in general” trustworthy. Embedded trust comes out of an embedded model because it comes out of the fact that the banker knows the borrower and has a social relationship with the borrower. As seen in Ch. 2, we saw how the measure of risk and generalized trust has been racialized through the embedding of racial prejudice into the categorical measures and definitions of what made a trustworthy borrower. Theorists such as

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\(^{72}\) However, this is not to say that each applicant is always solely seen as an individual. Because the group statistic is replaced by social networks, individuals can still be “judged” by the actions of those in their social network.
Stuart (2003) who document institutionalized racism show that mathematical calculations can be biased and BFB agents show that neutrality in such a system requires the intervention of judgment, which in BFB’s case, is a judgment based on the LOR.

As we have seen in previous chapters, in order to counter biases embedded in the institutions, BFB management trains their staff so they can use good judgment—so that the management can trust the staff’s trust of the clients. The BFB staff has to know when to trust the client, how to build trust and use both the quantitative risk and qualitative uncertainty measures in assessing the client. But in the strategic embeddedness model, trust is especially significant because trust is used more often than in mainstream institutions to avoid delinquency. (As discussed above, BFB agents are strategically resisting the translation of uncertainty into risk and therefore will sometimes rely more on trust than statistics.) Therefore, the LOR is a crucial component of the training and trusting an employee’s judgment.

There are two forms of embedded trust BFB agents cultivate: personified and institutionalized. As a relationship manager who caters to the needs of her clients, Kia admits that building trust is the most challenging part of her job. According to Kia, nearly 80% of her business transactions are based on relationships and the trust that comes out those relationships. By listening to and conversing with their clients, the staff member is able to learn to meet their clients’ needs. Cultivating relationships with clients is critical in their organization because it cultivates trust. Trust facilitates the business transaction—in part because trust affects the perceived “risk” of the client. The building of trust goes both ways—the staff has to trust with the client and the client has to trust the banker him/herself (i.e., personified) or the banking institution (i.e., institutionalized). Kia gives some examples of these two forms of trust. For instance, at the beginning of her career at BFB, Kia was new to banking and she relied heavily on personified trust. She was working with a seasoned banker who had an arsenal of social ties with people who believed in this banker and she was “working off” of those relationships. She
explains: “In my particular experience, in my case, the first two or three months of me just doing meetings and stuff was really just me ‘selling’ Michael [the experienced banker] because I was promoting him… So it was his relationships--people believed in him--they were willing to give us [BFB] a shot.”

Then at other times Kia relied on a form of institutionalized trust whereby the client trusts BFB as a stable institution in the community. Kia explains: “But at the same time, now we’re moving into spaces where we [the BFB team] already have a proven track record. So we’ve done church loans forever. So to then begin to tap into those institutions to get a banking relationship is not as hard because there’s already an established relationship--same thing with the charter schools.” But at the end of the day, Kia asserts that the key in building trust is through conversations: “We’ve been doing that [tapping into existing institutional relationships] for the last two years so when you come in on the banking side, it’s not as difficult but it is a function of a lot of conversations as opposed to be able to send out a nice flashy brochure and they get it. But with that said--it’s always about conversations: ‘Well, tell me about what exactly it is that you need.’”

As seen in Ch. 6, the stories and flexibility that facilitate the loan process is a product of the trust that is fostered through conversations. Embedded in the concepts of trust and relationships is the idea of “risk.” As Stuart (2003) asserts, if the evaluator “trusts” you, you are seen as less risky—and if an applicant is seen as less risky, it is more difficult for a banker to justify higher interest rates, etc. Furthermore, if the banker trusts the applicant, the banker is more likely to give the applicant a “break” on items that may be in the “gray” area. In sum, this question of how and when an evaluator can extend trust is significant because in the embedded model of lending, trust is the main strategy to avoid delinquency.

Furthermore, as seen in the literature, social ties can work in two ways: as a source of information and as a source of social control. In other words, in addition to gaining a source of
information from establishing relationships with clients, BFB actors can simultaneously use such social ties as a form of control. That is, by engaging in relationship lending, the client likely not only has loans with BFB, but also savings and checking account as well as social ties with a BFB actor. By being able to monitor the various accounts the client has with the bank, the BFB can potentially impound the other accounts if the client fails to pay. Moreover, by knowing where the client lives in the community and who his neighbors are, the BFB actor can have more options on how to proceed when the client misses a payment rather than immediately reporting the client to the credit bureaus, etc. However, instead of “controlling” the client per se, BFB actors try to take control of the situation and use the social ties to avoid taking negative actions that may deplete the client’s and the community’s wealth. For example, as we saw an example of this in Ch. 5 when Estella Carr, the former Loan Services Manager drove over to her elderly client’s home when the client missed several payments. Instead of starting foreclosure procedures, Estella drove over to the client’s home and one of Estella’s other clients recognized Estella and let her into the gated community in which the elderly client lived. Estella found out through that visit that the elderly lady, who was never late on her payment before, had suffered a heart attack and had been in the hospital for three months. Indeed, one of BFB actor’s longstanding goals is to avoid foreclosures by working to “figure things out before” the bank has to foreclose, etc. and it is the social ties from the relationship banking that helps facilitate this goal (Personal Interview with Paul C. Hudson 2014). For example, the BFB actors will work with borrowers who are having difficulties with their payments by modifying or stretching the payments, providing forbearance or changing the interest rate.

The Role of Affinity in Broadway Federal Bank’s Model of Strategic Embeddedness

To further clarify how BFB’s model of strategic embeddedness is different from other models, I present the following quote from Kia in which she explains how BFB agents are able to combine mathematical calculations with social relationships through listening, taking the time to
build social relationships and extending a sense of compassion out of a sense of social justice—all of which are rooted in the LOR:

So you asked me also why Broadway people are more willing to [go the extra mile]—and I really think honestly that it boils down to an affinity. I mean, I think that we are—we’re more inclined to take a look at your experience: ‘Okay, maybe you survived a divorce and maybe had to rebuild your credit at one point in your life, but you’ve been doing it for six years and we’re able to have a conversation; maybe we can go to your home or your business to see what you’re doing and so there’s a willingness and a propensity to want to want take a risk and support you because we want to build a community of wealthy individuals. And that’s just the play and I think that because we all have an experience of our own that we can tap into and then therefore extend a sense of compassion. We’re not going to make some stupid business decisions…if your credit’s all crazy and you’re bouncing checks all over the place and you don’t have your financials in order. We’re not going to do the deal. But we’ll be more inclined to do a deal for someone who does have the stuff in order, but maybe is just under the threshold of the income that they should be making. But this loan will really help take them over the top. Or for example within the charter school space, we work with a lot of African American based charter schools who oftentimes—they’re doing a good job, but they’re waiting on funding to come down from the state and they don’t have enough to cover the expenses for that year or to purchase building, so we’re able to really understand their business and to understand, okay, this is a leader, this is somebody who I think will do well and that’s why we want to support it because we’re willing to go into the community and see it and experience it. So, you know, a lot of times, that affinity that you’re able to tap into. (italics mine)

In explaining why BFB agents “go the extra mile,” Kia is describing the strategic embeddedness model in which she and her fellow co-workers employ to assess loan applicants. In particular, she is providing an example of the BFB agents’ strategic and concomitant use of model’s calculations of risk and uncertainty--by using the 5 C’s of credit and relying on their relationships with the community and the customers. Kia asserts the importance of relationships in any kind of business: “It’s all about who you know, no matter what business you’re in.” And she estimates that 75-80% of business deals at banks are based on “affinity” and the rest of the percentages are based on “crunching numbers.” By looking at the applicant’s experiences--their challenges and triumphs through their stories--BFB is really looking at the applicant’s character (which is one of the 5 C’s in the traditional relationship banking model). However, unlike the traditional form of
the pre-1970s relationship banking, the BFB agents do not use the “6th C” of color to automatically reject a client who is of a certain race. Instead, the “6th C” takes a more nuanced form of “affinity” at the bank because the “6th C” is tied to BFB’s bank culture of the LOR.

Although the terms “culture” and “culture affinity” are used in both the cultural affinity hypothesis and the strategic embeddedness model, they are used in very different ways. On the surface it may seem BFB’s acknowledgement and empathy of the racial challenges their clients face means that BFB agents are engaging in “cultural affinity” with African Americans. Recall that the cultural affinity hypothesis proposes that racial disparities are created in the assessment process when the bankers use racial group identity to simplify decision-making, despite the use of numerical, “objective” knowledge and calculations. Specifically, the hypothesis suggests that the racial disparities in the lending industry are created because there are more white agents who are comfortable and have a cultural affinity with other white applicants. Therefore, more applicants will get their loans approved. Although Kia uses the same word “affinity” to describe BFB’s strategic embeddedness model, BFB’s evaluation process is opposite of the cultural affinity’s model. Instead of using racial group identity to simplify the decision-making process as the bank agents do under the cultural affinity hypothesis, BFB agents are doing the opposite: they are treating each client as an individual and applying the “personal knowledge” criteria of the 5 C’s, but the “6th C” (or “color” or race) they are using is part of the LOR, which encourages racial uplift, but also has strong notions of social justice that requires BFB agents to treat each individual’s financial applicant equally. That is, BFB agents do not merely use culture or “cultural affinity” to make a decision, they rely both on the 5 C’s and take into account the applicant’s character.

Furthermore, BFB’s model is based on the LOR, which is not a static, pre-given set of values. As described throughout this dissertation, the LOR is a multi-faceted, fluid schema that is continuously constructed through the banking relationship by action, conversation, social
networks, social capital and trust. Thus, instead of relying on a presumed blanket commonality in all white people (or all black people) and judging individuals by their racial group, BFB’s model treats each applicant individually regardless of their racial background. In the cultural affinity model, the “6th C” in the traditional relationship banking model seems to have reappeared in the mechanized model in which color is used as a “tipping point” to determine whether or the applicant gets the loan, whereas in the strategic embeddedness model, BFB agents uses “personal knowledge” (i.e., the 5 C’s) in conjunction with statistics. Finally, as I elaborate on below, the “affinity” is built on a trust which operates at BFB is a two way street—both client and banker build a mutual trust and understanding—instead of a situation in which only the banker extends a blanket trust of what he/she is culturally familiar. In sum, for BFB employees, “affinity” has both cultural (i.e., specific, shared experiences) and social (i.e., shared networks, neighborhoods) aspects. These aspects trump preferences for racial group. For cultural affinity theorists, “affinity” is not cultural at all—it actually refers to “racial” affinity—or the superficial or presumed ties to others who are of the same race.

Why Stories and Listening Matter: Historically Marginalized Groups and Rigid Criteria

Another important aspect of the strategic embedded model is the staff’s ability to empathize with the clients and their desire to assist people who have been marginalized. The willingness and propensity to “take a risk” is rooted in the agents’ goals to “build a community of wealthy individuals,” which is part of the dual goals of profit and community and is accomplished through listening and building relationships with the clients. BFB bankers may take more time and effort to assess each application by taking the time to cultivate trust, but their approach is fair to each individual applicant and they are not exposing the bank to more risk than by solely relying on the disembedded system’s risk statistics.

Research on relationship banking asserts that the motivation for “making it work” for clients is a function of small, community banks (Holmes et al.’s 2005). But BFB’s LOR-based
“relationship banking” influences BFB agents to prioritize reinvestment in the community. One important reason why the BFB management have continued to rely in part on the embedded model is that the embedded model’s structure allows it flexibility in its decision-making process: it allows for BFB agents to take on dissimilar cases and use judgment in “solving the problem” to make case specific decisions. (And it also allows for BFB employees to choose when to rely on the mechanized system’s criteria and when not to.)

The BFB agents are tasked to “solve problems” and make it work for clients because the clients have particular needs that are neglected by the disembedded industry which favors homogeneous, highly profitable cases that fit uniform criteria. The needs of BFB’s clients reflect why the disembedded industry, which favors large, risk based models of credit evaluation, are often weak in providing services to people of color who live in urban areas. Kia gives an example of the needs of BFB’s customers’ and how she takes the time to solve their problems by extending BFB’s financial services:

So if their [BFB customers’] need is: ‘I really need a loan and I’ve gone into other banks and people won’t really listen to my story because they’re putting me against these rigid criteria.’ Broadway’s actually known for doing sort of the loans that maybe other people won’t do because we’re willing to look past of some of the things just because our goal is to support folks in the community and sometimes the people in the community don’t really have everything lined up as much as they—larger institutions—require. You are—so you definitely want to listen to what they say and then talk to that...

The acknowledgement of underlying factors in of itself marks a crucial difference between BFB and other banks—other banks do not take the time to ask this question at all—because of the “conveyor belt” structure of the bank, the harsh profit driven model and/or they just do not or cannot care about the “story” if it does not help the bottom line: profits. But BFB employees care about getting the whole story and understanding the struggles that the client may have had to overcome because of the employees’ dedication to reinvesting in the community. Under the LOR culture, there is more to making a profit in giving a loan.
The staff at BFB accomplishes this in part by focusing on the character of the applicant. Taking into account the character of the applicant is particularly important in resisting the embedded biases in the mainstream system because the people underserved by the mainstream industry often do not fare well under the mainstream industry’s rigid and biased criteria. Thus, judging the applicant’s character not only allows the BFB bankers to resist the mainstream’s exclusion of their target population, but it allows BFB bankers to lend in a responsible way that is not “riskier” than the mainstream industry’s way of solely relying on mathematical calculations.

BFB’s agents rely on conversations with the applicant to determine character. In particular, BFB staff listens to the applicant’s “story” in order to assess the applicant’s character and to build trust. The following quote shows how taking the time to listen to the client is an important part of being able to reach the underserved:

And I mean, there’s also all these underlying things that you [applicants who may not have the typical perfect application according to the industry’s standards] have to overcome. Because then when you look at the numbers, then you have to really think about, well what’s the story behind the numbers? So this person who owns this business had to beg, borrow and steal just to get out of the projects, to be able to start this up. This other person, a parent wrote them a $50,000 check to get started…This guy may have had some stumbling blocks, but he finally got here. Okay, now you’ve got to think about the numbers. Well, this guy, okay was late on a payment here six years ago, but for the last 7 years he’s been okay. He can explain that: ‘Well, I was just starting out. I was planning to have someone come through with it, it didn’t work.’ But you can see this guy has been perfect the whole time, so is he more of a risk given the challenges he had to overcome when he started?

BFB’s customers have historically not fared well under the rigid criteria of the mainstream industry because of the coupling of race and space and the embedding of racial biases in the mechanized system of credit evaluation. To compensate for this biased assessment of this so-called “riskier” group, BFB builds relationships and trust through taking the time to listen to the applicant’s story; thereby in part neutralizing the bias embedded in the mainstream industry’s criteria. Thus, accepting the story is an important strategy for the strategic embeddedness model. The underlying factors “behind the story” of BFB’s clients is important to Kia and other BFB
employees because they highlight situations in which the client may not have had a fair shake in the first place and therefore had a negative effect on the so-called “objective,” hard measures that banks usually use in determining risk. Considering the applicant’s “story” allows BFB evaluators to use the embedded strategy to judge character. Regardless if the BFB employees are consciously aware of the “underlying” factors cited in the literature that often adversely affect minority borrowers (i.e., racial or ethnic groups, women, etc.) such as the effects of residential segregation, educational inequality, crime, social and cultural capital, lack of access to fair and competitive rates in credit—factors that may affect the client’s “objective” measures before they even fill-out the loan application—they are willing to give applicants a second chance because of the LOR bank culture.

The Role of Race under the Model of Strategic Embeddedness

Although BFB’s model is structured to focus on the individual merits of the loan applicant regardless of race, race still plays a role in the lending process—as it does in all lending since race is embedded in all financial transactions. However, as shown above, the role of race at BFB’s is nuanced because it is not used as a “tipping point” or deciding factor in lending decisions. Instead, it becomes part of the conversation and social networks by virtue of the bank’s history and the community the bank is committed to serving. As discussed in Ch. 4, BFB’s use of race is complex in that it can mean race as skin color and/or power. Race is an important concept in understanding the LOR because it is rooted in the African American intellectual tradition of racial uplift. But, as mentioned in Ch. 2, a core component of racial uplift is the value of social justice, which dictates that all individuals are equal. The other core value of racial uplift is empowerment. Therefore, the use of the relationship banking’s 5 C’s personal knowledge is fitting as it can have non-racial components. In BFB’s model, African American applicants do not automatically get credit because he or she is black; each applicant’s story or experience is taken into account and has to “make sense” with their “numbers.” (As Kia says,
“We’re not going to make some stupid business decisions…if your credit’s all crazy.” However, in contrast to what mainstream banks tendency to deny black applicants who are just under the threshold, while approving white applicants who are under the same threshold (Hunter and Walker 1996)—BFB agents are “more inclined to deal” if the applicant is just under the threshold.

Moreover, because of the bank’s history as a black bank and the coupling of race and space, the particular history of African Americans makes them a group that is more likely in need of second chances. The bank’s location in the once historically African American community of SLA means that more of their clients are black. Therefore, the BFB agents’ inclination “to deal” is not entirely free of racial consideration as it is rooted in a sense of social justice and giving people second chances. The “story” (capturing the applicant’s experiences) and the character of the borrower are important to consider because the BFB staff is concerned about social justice and a fair shake, not just about making a profit. Since many of BFB’s customers have historically been African Americans, this compassion—as Kia describes—often takes the form of empathy for the racial discrimination or humiliation that blacks experience in mainstream institutions.

Kia gives an anecdotal example of how race plays a role in the loan process and how BFB offers a refuge for some minorities who still feel they are being treated as second class citizens because they are not being extended the same trust and the “benefit of the doubt” that others may get:

Well, for example, there’s a guy who we’re actually courting to bring over as a banking client, but he has a loan from us. And he actually had a really bad experience. He had been a customer at I think Union Bank of California for many years and had really significant deposits on hand…He had been a customer and had gone to them to get a loan and the reason why they turned him down is because he had a car loan that I guess [for] the underwriter…[that] sent a red flag up. Now mind you, this guy was trying to buy like a $2.2 million building. He had probably that in cash at the bank, but he didn’t want to spend all his cash so he was trying to take out this loan he could show income, all that kind of stuff. He could have purchased the car, but for tax reasons, wanted to lease it and there were all these different things and the guy [the underwriter at Union Bank]
denied him the loan. And he ultimately was so angry that he came over to us and we did it. And finally, he complained to Union Bank and the President of the loan department called him up and was like profusely apologizing and trying to—and finally, he [the new BFB customer] asked him, so what was it that caused this guy [the underwriter] to not give me the loan...[H]e [the client] called the guy who denied him and he said, ‘Well, you have a car loan and we think that you’re a little bit too leveraged.’ And he’s just like, ‘What are you talking about?’ Obviously this guy was inexperienced, didn’t look at the whole picture, just saw a black guy trying to get a loan for $2 million and he saw him with a car, a loan that he felt was too out of whack. And the guy was ultimately fired. Maybe because it was such a grave error, but that gives you an example, I mean he never wanted to go out and look at the businesses, he never really wanted to go out and really look at this guy’s character, he just probably saw his color and that maybe black people have a lot of fancy cars and don’t know how to pay it and thought he was a risk.

Although it is unclear if the underwriter was truly basing his decision on the racial stereotype of African Americans as being “riskier,” the point is that this is one of many examples of what African Americans experience when they come to BFB as a refuge. (And if the underwriter did deny the client because of his race (the “6th C”), then this contemporary anecdote is eerily similar to the opening vignette in Ch. 1 describing how BFB co-founder M. Earl Grant was denied a loan despite being a successful millionaire.) Kia’s example shows how under the strategic embedded model, sometimes the BFB agent are empathetic to the experience of the challenges African Americans continue to face and how these marginalized clients are treated and seen differently at BFB. What Kia conveys is her acknowledgement of the inequity—not just inequality—that their clients sometimes face. Kia says that it is this “affinity” she has with the clients that explains her commitment to “go the extra mile.” And she explains why the staff member is more likely to understand, empathize and trust those clients when they understand how the clients’ decisions are made in a context that automatically deems them as riskier because they live non-conventional lives—that is, lives that do not conform to the norm defined by the mainstream industry’s mechanized system of credit evaluation.

Racial Solidarity and Persistent Racial Discrimination

Due to the tacit (and sometimes open) acknowledgment of racial discrimination in
American society at the bank, relationship banking can be seen to have aspects of racial solidarity. The racial solidarity comes from both the BFB agents who, as Kia’s described above, have a sense of compassion because “we can all empathize” with the challenges that the clients have gone through. And sometimes the clients themselves choose to patronize BFB because they too, feel aspects of racial solidarity to BFB, as a black business. Kia explains:

People who may have just seek (sic) us out usually do [know of our history as an African American bank]. But like I talked to somebody yesterday who just googled… ‘banks in California’ and she had no idea that we were African American…[B]ut I sort of just happened to mentioned, ‘Oh, did you know that we were African American?’ She was like, ‘Oh, no. I had no idea.’ So, the name [of the bank] doesn’t necessarily indicate it. Yeah, I mean a lot of people who come here are coming here for two reasons: A) because they want to support an African American, a minority, community based bank or B) because they realize that our history of customers is an indication that their specific needs will be suited and served well here. And they want to be able to have that personalized attention and personalized experience.

Kia says that at least 30%-40% of her clients go to BFB because they want to support a black business. But what does the clients’ interest in supporting black businesses indicate? Why do people seek and value the history and the history of BFB? When I asked clients of BFB these questions—whether they directly or indirectly answered—their answers all pointed to their experiences that reflected their acknowledgement that race still affects their lives. Similar to Kia, clients often share stories, experiences and data that point to disparities in various aspects of life for racial minorities. People who support or work for BFB may not all agree on how to fix the problem of this disparity—some, like Richard, will not even concede that the racial disparities are due to discrimination—but they all acknowledge racial disparities. Sometimes the acknowledgement of the role of race and racial solidarity is left unspoken. Kia clarifies what she means by “community” later in the interview: “And when I say ‘community,’ I do mean sort of ‘African American’ focused thing.” As Omi and Winant (1986) assert, in the post-CRM era, we no longer can talk about race openly. But regardless of whether race is openly or tacitly acknowledged in the banking relationship at BFB, what is clear is that there is often a racial
component embedded in them.

VI. Conclusion: Managing Mainstream’s Definition of “Risk” through the Building of Trust and Social Capital

As we saw in Ch. 1, there are a variety of strategies to increase community resources through banking. But the BFB founders and staff chose to use ethnic banking as a strategy because of the particular legacy of segregation that coupled race and space, thereby reinforcing enduring biases against people of color and residents of SLA. In the pre-1970s era, financial activists resisted the “6th C” (i.e., “color” or race) by creating their own ethnic banks that would not automatically turn down applicants simply because of the color of their skin. (They also fought this inequality through the judicial and legislative process.) But in the disembedded, mechanized system of the post-1970s where the commonsense belief is that mathematical calculations of risk are race-blind and objective, BFB agents had to devise another strategy resist the continued exclusion of historically underserved populations in their community. Therefore, BFB agents’ task to achieve the bank’s mission of profit and community became much harder—in part because as seen in the literature, there has become a myriad of ways that racial bias operates in the mechanized system of credit assessment. Instead of attempting to undo laws and cultural norms that prevented African Americans from purchasing property (as they had done in the pre-Civil Rights era), the contemporary BFB agents were faced with resisting cultural, institutionalized, and embedded forms of racism—much of which were subtle and therefore difficult to prove in the post-Civil Rights era. The cultural affinity hypothesis theorists identify the cultural comfort of lending agents as the source of bias affecting the racial disparities in the system; while constructivist theorists like Guy Stuart (2003) focus on the embedding of biases in institutions. But whether the biases against people of color are due to the embedding of racial values in institutions, statistical, institutionalized discrimination and/or lender preferences, the point is that BFB’s work is exceedingly difficult as they try to mitigate biases from all these
fronts.

In an effort to include the excluded in the lending process, BFB agents resisted the industry’s trend and never truly disembedded from their community. By remaining a portfolio lender that allows them to be more flexible in their decision-making process and by staying committed to the mission of the bank by relying on the bank’s LOR culture, the BFB agents began using the strategic embedded model, a hybrid form of the pre-1970s relationship banking and the post-1970s mechanized models of credit assessment. By using both models, BFB staff and management have created more leeway in their lending process and therefore can be more creative in how they manage risk and uncertainty—a creativity that BFB agents often use to extend financial opportunities to those historically marginalized by the mainstream industry. BFB’s model allows the agents to look beyond the rigid statistical numbers and consider the story or context, which reflects the client’s character. It also allows them to build social relationships and trust to manage the chances of delinquency. In particular, by cultivating institutional and personal forms of trust in the community, BFB staff and management use the mechanized system of risk assessment while retaining their ties to the community in order to help mitigate the uncertainty. This strategic use of social relationships allows BFB agents to provide a fair and perhaps even more accurate (and thus less risky) credit assessment of applicants because by resisting to convert all uncertainty into calculable risk, clients who are deemed too “risky” by the mechanized, disembedded system have second chance at showing their trustworthiness. Because the strategic embeddedness model is rooted in the bank’s LOR culture, BFB is a case study that shows the significant role culture can play in the lending process—despite the commonsense understanding of it as an unbiased, “black and white” mathematical exercise. Furthermore, in clarifying the meanings and roles of trust and judgment in BFB’s model, I show how bank culture is a nuanced and complex phenomenon that is combined with acts of trust and social relationships that provide data on the 5 C’s (or “personal knowledge”) and not just on whether an applicant is
of a particular race (“cultural know”).

BFB agents’ unorthodox way of using “soft” data looks biased when compared to the mechanized credit assessment model because the pre-1970s style of relationship lending has been highlighted in the literature review as an unfair system that causes racial disparities in the lending process. It is this combination of listening to the stories of their clients and the trust that develops that facilitates the flexibility that the staff shows their clients. This so-called leniency that the bank shows their clients does not expose the bank to more “risk” than other banks who refuse to work with these marginal customers, because BFB’s particular construction of “risk” is not necessarily riskier than the way that other banks construct their “risk” profile, such as those who may have engaged in subprime mortgages.

As Stuart (2003) writes, risk is about how one translates possibilities into statistical probabilities. As he shows in his work, the definitions of risk in the disembedded model uses racial biases embedded in the institution to produce biased decisions against minorities. But what BFB’s resistance to this mechanized model is that risk and trust are the opposite sides of the same coin—both can help lender manage delinquency. But instead of focusing on how to best label everyone as risky—as the disembedded “risk” model does; BFB’s strategy is to acknowledge the risk, but to find ways to manage that “risk” through building trust. That is, because BFB is focusing on listening, building social networks, translating social capital into trust, BFB agents are proactive in mitigating the possibilities of delinquency instead of focusing solely on the assessment of “risk.”

BFB’s strategic embedded model using trust and social capital is in and of itself a reliable way to assess and manage credit—as seen in their low foreclosure rates throughout their 60 year history, and the research on strategies of embeddedness that have shown its reliability (Guseva and Rona-Tas 2001; Ferrary 2003). In fact, since BFB reasserts the importance of using the applicant’s character as part of the lending process, in some ways they can be pursuing a more
accurate way of evaluating the creditworthiness of an applicant because of the way the mechanized system groups applicants together. Unlike the other models of credit assessment, BFB’s model does not use group identity to simplify the decision-making process. In the traditional pre-1970s relationship banking model, it did not matter what the 5 C’s looked like if the “6th C,” color [of the applicant], was not white, because then the applicant would be denied a loan regardless of the 5 C’s. In the disembodied, mechanized model, the applicant’s trustworthiness is lumped in with others of the same uniform category. For example, the FICO score is a construct in which is based on the mathematical calculations of groups of people. (And even the cultural affinity hypothesis is biased because white bank agents use their comfort with white culture to simplify the decision-making process.) All such cases involve “group-thinking” or group identity as a cheap and quick way of evaluating as many people as possible. Therefore, the “majority” or mainstream groups are covered under this model, while those who fall in the margins are subsequently not accurately assessed for their individual trustworthiness. In some ways, “group-thinking” is how race and racism works: it is a cheap and quick way of assessing the individual through the group. This “group-thinking” is what BFB has been fighting and its leaders have been resisting since their establishment six decades prior.

The BFB model is unbiased because it is in part based on individual merits and therefore gives the individual applicant a fair chance to show trustworthiness. Although BFB’s form of relationship banking may have racial components in them, their model’s focus on social justice allows them to broaden opportunities to people of all races. (And furthermore, since not all biases in the institutions are racial biases, BFB’s effort to accurately evaluate each individual means that they are potentially addressing other biases as well.) Thus, by humanizing the credit assessment process, BFB staff and management address the lack of financial opportunities for the residents of SLA in a small way. In sum, this case study shows that rather than being the cause of racial disparities in the lending industry, the culture and social relationships are actually needed to
make the lending process fair. It shows how a group of banking employees responds to racial disparities by using the LOR to expand financial opportunities to the marginalized. In their attempt to serve the underserved, these conscientious capitalists have to balance their dual goals of profit and community. In analyzing BFB’s model of strategic embeddedness, I show how relationship lending (i.e., what is considered “personal” and “cultural”) is actually what is needed to make the process fair. By offering second chances to clients that may not be able to get loans from mainstream institutions, BFB’s strategic usage of social relationships to mitigate and manage delinquency addresses the racial disparities in the lending industry—one loan at a time.

But addressing disparities one loan at a time is also one of the weaknesses of this model as it does not translate to the highest of profits. This is because although BFB’s model is fair and accurate, it is also a slow process and their clients often do not ask for large loans that are generally more profitable for the bank. As documented in the previous chapter, the BFB staff takes on extra work to ensure that a stereotypical “risk” factor is actually not risky by accepting on letters of explanations, etc. Sometimes that extra work results in opportunity cost and/or lower profits. To BFB, it is worth the “risk,” the extra work and the opportunity cost partly because they as a small community bank, they do not have many choices for clients, but mainly because they see the good in how it will help the community. Because by working with people and on projects that are deemed either too risky and/or too meager of a profit margin by other banks, they are potentially contributing to the financial opportunities and stabilities of families and future generations in their community.
Chapter 8 Conclusion --“A Bank with a Little Heart”: Second Chances and the Limits of Calculated Compassion

As the oldest African American bank in the West, Broadway Federal Bank (BFB) has been an organization ahead of its times—even as times have evolved over the course of 60 years. It has transformed its banking as both the meanings of race—or what it means to be “black”—and what it means to be a bank have changed dramatically. But in order to stay ahead of its times and continue to be a profitable bank and a resource for the underserved in the South Los Angeles (SLA) community, BFB has had to go against the trends of the banking industry and mainstream society. Since its inception in the mid-1940s, BFB has been “swimming against the current” by providing services to a population that was shunned by the mainstream. In the 21st century, BFB continues to struggle as a small, race-based bank with a dual bottom line--committed to serving a marginalized community and making a profit at a time where mainstream society believes racism is no longer a problem and the government supports large banks instead of small ones because it believes that big banks are “too big to fail.” Generations of BFB agents have been able to sustain a bank culture that mutually reinforces profitability with identity and community, but this has not been an easy feat. BFB’s model of conscientious capitalism is challenging to enact because the LOR culture is a difficult line to walk. In order to be affordable and effective to their community members, BFB has had to be adept at maneuvering social relationships, networks, and trust. As this study has shown, generations of BFB agents have dedicated their lives to this model of financial activism with resoluteness. But BFB’s success in achieving the dual bottom line requires not only the right leadership and staff, but it depends on how it can successfully bear the pressures of the economic market and federal government oversight. Furthermore, the bank’s survival is directly tied to the status of the already fragile economy of its community. A bank’s commitment to the welfare of a historically marginalized community as we have seen at BFB is
rare, and it is left to be seen if others can learn from BFB’s model of conscientious capitalism and the LOR bank culture to forge new ways to engage in financial activism.

This dissertation utilized ethnographic (i.e., in-depth interviews) and archival research at BFB to investigate how race and culture have changed over the decades and how they have been used as part of the calculus of financial activities. This study focuses on how “subjective” social phenomenon such as race can enter the so-called rational and “objective” world of banking. Specifically, I examine both when and how race affects seemingly “neutral” economic decisions. In doing so, my dissertation is a case study that shows how institutionalized racism functions at a financial institution and how people resist this. My study shows how people are engaging in activism at an institution as highly structured and regulated as a bank—an institution that is supposed to be faceless, neutral, and part of the free market that should be left unfettered from any restrictions. Instead, my research reveals how bank culture can transform such a faceless and formal institution into one that is composed of social relationships and addresses people’s real life problems one at a time. Specifically, my study shows how an ethnic bank re-embeds itself as part of the financial activism they are engaging in. Moreover, my research shows how race, racial meanings, and boundaries are reproduced in everyday life at a bank. In sum, this study uses banking to explain the social construction of race and shows how what was considered an outdated form of banking can be used to address social issues.

BFB is an ethnic bank, a community bank that is owned, controlled, and primarily serves co-ethnics. An ethnic bank is an ideal place to look at the social construction of race, the institutionalization of racism, and how to fight it because having access to the banking industry’s financial resources is critical in shaping one’s financial opportunities and social mobility. Furthermore, issues of economics and race are at the forefront of ethnic banks as they are banks that have historically catered to racial and ethnic minorities. Similar to other ethnic banks established in the pre-Civil Rights Movement (CRM) era, it was founded in a racial and ethnic
community because mainstream banks excluded minorities from their services. In the post-CRM era, Civil Rights legislation has prompted the financial industry to become more inclusive of minorities. Furthermore, this industry has been trending toward supposedly race neutral and “objective” calculations of risk and profit-oriented large banks. Therefore, race and culture should play little or no role in an era of colorblind rhetoric; and mechanized banking theoretically removes subjective prejudices from banking services. Contrary to this, my study shows how race and culture play a substantial and nuanced role in banking. BFB, with its dual mission of profit and community, has been operating as “a bank with a little heart” by providing people with second chances to regain access to financial services without gouging them even though they are the bank of last resort for many of its customers.

Generations of bankers at BFB have reproduced a bank culture that has allowed them to achieve their dual mission of assisting the community and making a profit. At the heart of this organization is an institutional commitment to what I have termed the “logic of reinvestment” (LOR). Bankers at BFB rely on the LOR to prioritize the welfare of the community and to increase opportunities to those who are marginalized by the mainstream while making a profit. The bank, in effect, represents a form of what I call conscientious capitalism. The essence of the LOR – and the core of my theoretical model of community banking – is the idea that a community banker should prioritize the welfare of the community members instead of only focusing on the profit making motive.

While conventional theories of community banking predict small banks focusing on serving clientele in poor and minority communities such as SLA will disappear due to unprofitability, my theoretical model shows that such banks can indeed find ways to achieve and sustain the dual bottom line of profit and community, however limited those profits are. This study has highlighted the model BFB has used for the past six decades to demonstrate that the living logic of a bank culture can train generations of bankers to continue to prioritize
marginalized community members in spite of the unending pressures to increase their profits. Indeed, BFB has not only survived through the Savings and Loan Crisis of the 1970s and the bank merger mania of the 1980s; but also more recently, the subprime crisis of 2007, which saw the failure of more than 400 banks in the United States--with 38 of these in California (Falkenberg 2014). Despite this, the BFB management and staff have continued to forge new approaches to assist the marginalized in their community. This proves that an alternative, community-centered approach to banking can work.

To understand how and why generations of BFB bankers have been able to continue to adapt to an alternative, community-centered approach to banking, one must understand the historical context in which the bank was established and the founders whose legacy of pragmatism, idealism and social activism has been instilled in the bank’s LOR culture. In the early years, BFB worked in a completely segregated context. Life for African Americans in the mid-1940s was difficult at best, with the entrenched Los Angeles (LA) style segregation of half-freedom. Although black Angelenos did not live in fear lynchings, they nevertheless faced spatial, social and financial isolation as they were forced to live in dilapidated and increasingly overcrowded areas of the city. Relative to the mainstream, people living in SLA had lower wages, a higher percentage of unemployment; and credit flows were more fragile than elsewhere in urban southern California. However, LA offered African Americans among the highest wages in the country. Therefore, there were also a good number of African Americans who could afford purchasing their own homes. (Later, the community context became increasingly difficult as high paying jobs from the wartime boom dwindled when the war ended and white veterans returned from war and needing jobs.) However, regardless of their wealth or creditworthiness, mainstream banks refused to grant loans to African Americans.

In those years, what BFB learned to balance was the fragility of the local economy and the need for credit flows to energize commerce and facilitate household consumption. They
succeeded in doing so by offering basic banking services and home loans. Their dual mission was accomplished without difficulty because they were a locally-based black-owned bank responding to the credit needs and economic stagnation artificially created by the mainstream banking market, which had purposely ignored the demand for credit in the area in part as an effort to maintain racial segregation through the guise of risk management and institutional isomorphism. For instance, with the Federal Housing Administration’s (FHA’s) endorsement of the practice of redlining that claimed certain neighborhoods were too risky to lend to, mainstream bankers either believed in the supposed riskiness of those redlined neighborhoods and/or adopted such policies in order to conform to social norms and institutional requirements. This virtually guaranteed that businesses in the SLA community, such as BFB, would be especially vulnerable in economic downturns because they were dedicated to responding to the needs of the community. At the same time, this also helped create a “captive” market for BFB as it ensured that the people living in SLA had little choice if they wanted to use banking services. (Furthermore, the population growth of the black community from the wartime boom would help BFB’s business expand.)

In the post-CRM era, race and racism had become more subtle, but similar dynamics of spatial, social and financial isolation continued to exist in SLA. In the decades following the CRM, BFB began to lose its “captive” market as some mainstream banking institutions moved into the SLA market and as segregation began to shift into a different form that allowed more affluent African Americans to reside outside SLA. More recently, SLA community’s vulnerability can be seen in the devastating effects of the subprime crisis which entailed huge costs for the community as a whole. For example, in 2010, the number of foreclosures in SLA was double the average for county; in the historic SLA Florence neighborhood, one out of every 105 houses was foreclosed upon (Henry 2010). As more research emerges on the subprime

73 For example, see Emily Henry’s (2010) “Foreclosure Crisis Still Looms Large in South Los Angeles.”
crisis—see for example, the studies on predatory loans—it has become abundantly clear that it disproportionately impacted racial and ethnic minorities. Therefore, studies such as this one that seek to understand the intersection of race, culture and economics is important. My findings on the history and current operation of BFB highlights how contemporary banking is racialized and points to the need for innovation as a way to build and maintain a community that is connected to multiple forms of capital. As a small bank, BFB does not have the resources to provide capital to the entire SLA, but it has become a vital part of community networks and has provided a form of bridging capital that helps propel growth in the community.

Since BFB agents are dedicated to serving a population that the mainstream industry has historically found to be too “risky” and unprofitable, they have to think of creative ways to respond to both the community’s needs and the market impulses to increase profit, instead of choosing between the two. Making loans where other banks fear to tread requires deep community knowledge. BFB has always had this due to their LOR bank culture, a culture that is a legacy of the founders but is also ever changing as new bankers bring their desires to reinvest in the community with them as they join the bank. In some sense, the LOR has been there from the bank’s founding. In 1946, Broadway emerged in the context of segregation and spatial exclusion. It then persisted through periods of change in the 1960s and 1970s. When the Community Reinvestment Act (CRA) came along in a period of complex changes in bank credit flows, BFB survived by relying on the LOR culture to make decisions to avoid the latest and highly risky ways of turning a quick profit and by being cautious and conservative in their lending and services. Furthermore, generations of BFB bankers have relied on the LOR culture to keep BFB a portfolio lender in order to pursue their dual mission. Remaining a portfolio lender allows them the freedom to pick and choose what to put in their portfolio and be flexible in what they require from borrowers because they do not anticipate selling those loans to the secondary market. Thus their loans do not need to fit the uniform categories that the secondary market requires.
This dissertation has argued that culture plays a significant role in banking. We can see a good example of this by looking at the different ways a bank can handle risk. Historically, the way risk has been evaluated has become a way of excluding certain segments of society, as we have seen with the practice of redlining. Communities such as BFB suffered from this model of risk as loans were provided at the expense of increasing borrowers’ financial fragility and the weakening of the threads of business and household resilience in the entire community. This in turn has negatively affected the African American banks that served these communities because each bank’s financial well being is tied to its community. In fact, the structural fragility of minority-owned businesses has been so great that Andrew Brimmer despaired of black banks being ineffective.

But BFB’s model showed that risk does not have to be exclusionary. The LOR at BFB fosters both a culture of communication within the bank, and an ability of a bank staff to build linkages with community members based on shared cultural reference points such as social justice issues. This augments the range of methods that can be used to identify creditworthiness. How has BFB attempted to accomplish this? Put simply, the LOR bank culture shapes the way the bankers redefine risk to include those who are neglected by the mainstream industry. Relying on the LOR, BFB agents cultivate and maintain social capital and trust in the community in order to resist the financial industry’s trend of disembeddedness. Building strong networks in “gray areas”—that is, non-conventional niches and loans that mainstream banks often ignore—the BFB management and staff rely on their social capital to build trust and relationships that in turn make them privy to information that can help reduce the uncertainty of whether, for instance, the borrower will default on a loan. Furthermore, working in “gray areas” gives the agents the flexibility to use their discretionary powers to achieve the dual goals of profit and community.

The mainstream financial industry has long abandoned the 5 C’s model of credit evaluation in favor of the mechanized model of credit that turns uncertainty into calculable risk.
In order to include those who are marginalized by the mainstream industry’s model of credit evaluation, BFB agents have relied on the LOR bank culture to redefine risk by strategically choosing to rely on uncertainty instead of risk. In other words, by staying embedded in their community, BFB has been able to continue to use the 5 C’s while selectively adopting the industry’s disembedded risk model. In fact, a version of BFB’s model is what the newly formed Consumer Financial Protection Bureau (CFPB) is now requiring. Created in 2010 under the Obama administration, the CFPB requires mortgage lenders make “good faith, reasonable effort” to ensure that the borrower can repay his or her loan. This means that lenders must make Qualified Mortgages (QMs) that check and verify the borrower’s income, assets, debts, credit history, etc. before offering the borrower a loan. In other words, lenders have to make sure that a borrower is actually qualified before she receives a mortgage. This marks a return to the core practices of the 5 C’s that the mainstream industry was using before the commodification of mortgages and the rise of subprime loans. But as this dissertation has shown, BFB has always used the 5 C’s. Thus, BFB has been providing consumer protection and responsible risk management long before Congress decided to set-up a consumer protection agency. The built-in consumer protection that has been integral in BFB’s operation is what makes it an organization that is ahead of the curve and at the same time, is also what makes it financially vulnerable as BFB’s model cuts into the profits that they could use to withstand economic downturns. Given the fragility of the LOR bank culture and its commitment to assisting a community that has continued to be forgotten by the mainstream, it is yet to be seen if BFB can withstand the next wave of changes in the banking industry.

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74 Other important changes in the mortgage lending industry under the CFPB include eliminating highly risky elements in loans such as negative amortization or no-interest periods and practices that qualify borrowers based solely on initial “teaser” rates. Furthermore, the CFPB has taken steps to protect consumers from the conflicts of interest with loan officers and mortgage brokers so that they can no longer, for example, earn more money if they offer the borrower a loan with a higher interest rate. For more, see http://www.consumerfinance.gov.
APPENDIX A: The Founders, Officers and Board of Directors of Broadway Federal Bank

Despite archival research in the library and interviews with the Hudson family and others whose families have been involved at Broadway Federal Bank (BFB) for generations, it is still unclear who exactly the founders were because the original archive of the bank was destroyed in a fire. According to Elbert Hudson, former President and Chairman of the Board (and also son of BFB founder H. Claude Hudson and son-in-law of BFB founder Paul R. Williams), there were eight men and one woman who were involved in establishing BFB. The people who can be confirmed as original founders are: **H. Claude Hudson, Paul R. Williams, H.A. Howard, S. (Simon) P. Johnson**, Albert Maddox and M. Earl Grant. The other three members were likely Thomas L. Griffin, Jr. Edward Atkinson and Cynthia Belle Gordon (Grant Oral History 1966; Personal Interview Elbert Hudson 2007). Almost all of these community leaders played key roles in the running of the bank as officers and/or members of the Board of Directors.

Old newspaper articles in the largest African American newspaper in Los Angeles (LA), the *Los Angeles Sentinel*, offer a glimpse of what kind of roles the initial officers and directors were involved in. On the fourth page of the *Los Angeles Sentinel’s* January 9, 1947 edition, a modest sized advertisement announced the formal opening of The Broadway Federal Savings and Loan Association on Saturday, January 11, 1947. The advertisement claimed that it was “A RED LETTER DAY IN COMMUNITY PROGRESS!” and listed were twelve officers and board of directors for the association. One third of this group was made up of women. (Having African Americans and African American women serve as directors was very unusual in the mid-20th century considering the fact that in 1948, the Los Angeles Bar Association still did not even

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75 Simon P. Johnson, a successful mortuary owner, was also an original investor at Golden State Insurance (est. 1925) with Norman O. Houston and Cynthia Belle Gordon’s late husband, Dr. Wilbur Gordon. (And Gordon and Houston were original investors in Liberty Bank, the first black bank in the West, established in 1924. According to Flaming (2006), Houston helped Dr. Gordon establish Liberty Commercial and Loan Association.)
admit black lawyers.\textsuperscript{76} And there were still many obstacles preventing women—black or white—from entering the real estate and financial fields in the mid-20\textsuperscript{th} century. For example, the acceptance of Mrs. Estnia Hardaway, the first African American and first woman, to the exclusive 32 year old Gary Real Estate in Gary, Indiana broke headlines just a year earlier (\textit{The Los Angeles Sentinel} 01/23/47 p. 21.).

The officers, the president and three vice presidents were all prominent men in the community. H.A. Howard, president, was a successful realtor who also served as president of the Golden West Real Estate Board, Inc. Vice president Albert Maddox was also a successful real estate broker (Personal Interview Elbert Hudson 2007) who was on the board of the Golden West Real Estate Board, Inc. Vice president Paul R. Williams was an internationally renowned architect. G. (George) William McKinney, a graduate of Howard University (A.B.) and the University of Pittsburgh (M.A. in Public Administration 1939) (Who’s Who 1948 Edition), earned a bronze star for his service with the U.S. Army and worked for the U.S. Government as an occupational analyst until he retired as a major and moved to LA and became vice president of BFB. (He also later served as the Executive Secretary of the NAACP (Who’s Who 1948 Edition).)

Zella M. Taylor, who owned a secretarial company (Personal Interview with Elbert Hudson 2007), was secretary for Broadway. Before working at Broadway, Taylor had long been involved with the LA chapter of the NAACP. The year BFB opened its doors for business, she was re-elected for her 16\textsuperscript{th} term as secretary for the NAACP (\textit{The Los Angeles Sentinel} 01/16/47).

\textsuperscript{76}The constitution of the Los Angeles Bar Association did not prohibit blacks from membership, but “that as a matter of practice they were not admitted” (\textit{Los Angeles Sentinel} 1/8/48, p. 1). The proposal asked members to vote on whether “Membership shall not be denied or abridged by reason of race, color, creed, or national ancestry.” This was the second attempt to allow African Americans lawyers into the Bar Association, but was rejected 844 to 642. In addition to the voting on the proposal, members were asked: “Shall qualified Negroes be admitted to membership in the Los Angeles bar association?” This advisory proposal was rejected 746 to 661.
M. Earl Grant, a principal organizer of the bank, was a successful entrepreneur and later also founded Family Savings and Loan, was treasurer; Mildred Wilson was the assistant secretary and Cynthiabelle Gordon, was the assistant secretary-treasurer. As mentioned in Chapter 2, Gordon was the widow of Dr. Gordon of the ill-fated Gordon Manors project that was supposed to become an upper class black neighborhood, but white homeowners from a nearby community opposed and terminated the project through political pressure on city officials because they felt the proposed site was too close to their homes.

Five of the officers doubled as board directors: Cynthiabelle Gordon, M. Earl Grant, Zella M. Taylor, H.A. Howard and Albert Maddox. The remaining four directors were high profile leaders in the community: Congresswoman Helen Gahagan Douglas, Norman O. Houston, Thomas L. Griffith, Jr. and Dr. H. Claude Hudson. Congresswoman Helen Gahagan Douglas was the only white person in the group. Douglas defeated black Republican Fred Roberts in 1946 for the 14th district’s congressional seat, which represented the district in which BFB was established (Flamming 2006:328). A former actress, Douglas was a Democrat who transformed her celebrity status to work for progressive reforms, including pushing for equality for minorities.

Vice chairman of the board, Norman O. Houston, was the president of the Golden State Mutual Life Insurance Company, which in 1947 was the “largest Negro business west of the Mississippi river, with assets exceeding $2,000,000” (The Los Angeles Sentinel 1-23-47 p.1; 1-

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77 Zella M. Taylor, along with fellow founders, Thomas Griffith, Jr. and Paul Williams, were noted as the personal staff for the benefit directed by Clarence Muse that raised more money than any other city for the NAACP. Muse, NAACP members and other Angelenos sent $1,147.76 to the NAACP to support the Costigan-Wagner anti-lynching bill (The Crisis 1935:277). And in August 1940, Taylor was among the recipients of the NAACP’s Merit Scrolls for her outstanding work for the organization (Wilson 1999).

78 The political career of Douglas was later marred by the up and coming golden boy of the Republican Party, Richard Nixon. Douglas lost a bid to a seat in the U.S. Senate to Nixon (Flamming 2006:368) in 1950 in part because of Nixon’s attacks on Douglas for being a communist. In one incident, he infamously derided her by saying she had “pink panties.”
Thomas L. Griffith, Jr. served as the chairman of the board of directors and was a respected attorney who was active in the NAACP, serving his 13th term as NAACP president in 1947 (The Los Angeles Sentinel 1-16-47 p.1). He eventually became a judge. Finally, Dr. H. Claude Hudson was a board director and an original investor of the bank. He was a dentist, a lawyer and the President of the LA Chapter of the NAACP. In September of 1949, Hudson became Chairman of the Board of Directors for BFB and later, President.

The men and women who founded and ran BFB were successful community leaders who were part of the same social and professional networks through their involvement with the NAACP and/or as partners in starting important black businesses in LA such as Liberty Savings and Loan, the first black bank established in LA, and Golden State Insurance Company, the first and largest black insurance company west of the Mississippi.
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