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Black-owned bank has few urban loans

OneUnited sought aid as community 'beacon'



OneUnited Bank got \$12 million from the US bank bailout fund. (Pat Greenhouse/ Globe Staff/ File 2007)

By [Beth Healy](#)

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Calling itself and other minority-owned banks a "rare beacon of hope" in their neighborhoods, OneUnited Bank of Boston last fall made an emotional plea to the US Treasury for help with millions of dollars in soured investments.

Without assistance, bank officials said, OneUnited and other institutions might fail. The money did not come right away. But with the aid of US Representatives Barney Frank and Maxine

Waters, OneUnited secured meetings with the Treasury, and by December received \$12 million from the government's bank bailout fund.

It was the latest sign that the nation's largest black bank still holds sway with powerful politicians, despite a shrinking profile in Boston and financial troubles that brought a sharp rebuke by regulators. The bank has retreated from traditional urban lending, and in recent years has made few home loans in its Boston community, parts of which have been ravaged by subprime mortgages.

Among the handful of home loans OneUnited has made in the past few years were several to wealthy businessmen for upscale properties in the South End, Brookline, and even on Martha's Vineyard.

In 2005 and 2006, OneUnited made only nine home mortgages in Massachusetts, according to a regulatory report, and in 2007 just three mortgages across its markets in Boston, Los Angeles, and Miami - two of those loans on multifamily properties - according to a banking consultant who reviewed the loan portfolio.

"Most people think of OneUnited as a small community bank, a bank where you would go to open a savings or checking account," said Virginia Morrison, executive director of the Neighborhood Development Corp. of Grove Hall, which has done development projects with OneUnited.

But beyond big projects and checking accounts, Morrison said, OneUnited should do more outreach and home lending if it wants to be in tune with its market. "OneUnited should be able to sit down and deal with the one-on-one type of community banking that is really needed in a community like this," she said.

OneUnited's chief executive, Kevin Cohee, said the bank is helping the community in other ways - by focusing on loans to churches and developers of apartment buildings. He said the bank pulled back on home mortgages because he saw the housing market overheating. He said he didn't want to compete with the many mortgage brokers peddling subprime loans with unrealistic rates and terms, loans that borrowers ultimately would not be able to repay.

"We knew this bubble was developing in residential housing" as early as 2004, Cohee said in an interview. "If we had participated in inner-city housing lending, . . . we would have been out of business."

Cohee's banks did loan money to several wealthy acquaintances and developers. Among those loans:

\$3.7 million in 2004 to developer Nicholas Heras Jr., who built a 7,000-square-foot home near the Brookline Country Club and sold it to former Red Sox outfielder Johnny Damon.

\$1.1 million in 2006 for a condo at the luxury Heritage on the Garden across from the Public Garden to the real estate company owned by the Guscott family, prominent black property owners in Boston. The Guscotts own the building in Grove Hall where a OneUnited branch is located.

\$2.7 million in commercial mortgages in 2007 to an Italian businessman for two condos in the upscale South End.

\$550,000 in 2006 for a Martha's Vineyard home for Calvin M. Grimes Jr., chief executive of a large oil-delivery company.

Both Guscott and Grimes said they had been with the bank since "the beginning," 40 years ago, when it started as Unity Bank & Trust. Grimes, who has done business and mortgage banking with the institution, said the community needs OneUnited. "We've been successful banking with them, and we've stuck with them," he said. Heras said he knew Cohee through his son, who played basketball with Cohee's son.

But the recipients of these loans are a far cry from the sort of customers the bank referred to in its Sept. 6 letter to the US Treasury: "Unlike majority banks, which principally focus on profit, the express mission of minority banks is to promote these underbanked, underprivileged communities," the bank's chief counsel, Robert Cooper, wrote.

Cohee insists the bank makes loans to people of all incomes. But James Campen, a University of Massachusetts economics professor who studies mortgage lending in city neighborhoods, called the lack of home lending by OneUnited "a shame."

"If they were a full-service bank committed to local neighborhood needs, part of that would be providing mortgages," Campen said.

At the time it first asked for federal help, though, OneUnited was in the midst of an ugly bank examination. It had invested more than \$50 million in securities of mortgage giants [Fannie Mae](#) and [Freddie Mac](#) - investments that became worthless when the government took over the agencies last September. Cooper, writing on the letterhead of the National Bankers Association, a trade group of minority-owned banks for which he was incoming chairman, asked the government to buy the Fannie and Freddie securities from minority banks in order to save them: "To put it bluntly, we are seeking Treasury action on this proposal this week."

The Treasury did not act on that specific proposal, and the bank ultimately had no trouble raising the capital it needed from shareholders - \$20 million, Cohee said.

Several months later it also qualified for the \$12 million in bailout funds, which Cohee said the bank got because it simply applied for it, and not because of political favors.

But the bank's trouble went beyond its capital issues. Regulators in October concluded in a cease-and-desist order that OneUnited also had poor standards for qualifying and documenting loans, and gave top executives excessive pay and perks.

Two of the perks regulators targeted were a \$6.4 million beachfront Santa Monica mansion Cohee used while in California and a [Porsche](#) SUV he drove on company business in Boston. As ordered by regulators, the car has been sold and the bank is no longer paying for the house, which Cohee said he is selling.

Cohee said the house and car were necessary for conducting business - and modest compared with the jets and fleets of vehicles that larger banks often have.

"This wasn't some excessive spending splurge thing. This was a calculated decision to provide housing for our executives when they would travel from Boston and Miami to L.A.," Cohee said. "We wanted the bank to have an image of stability in the community."

Cohee's view of community lending has at times clashed with that of regulators and advocates for urban borrowers. Being a community bank, he said, is not "just lending to poor people."

A Harvard Law School graduate who counts the late Jheryl Busby, the former Motown Records president, among his mentors and largest investors, Cohee is not your typical banker. He was an entrepreneur in radio and television, and then in credit cards, before he and his wife, Teri Williams, bought a controlling stake in what was then the Boston Bank of Commerce for \$1 million in 1995.

He has built up the bank through mergers in Miami and Los Angeles, now its largest market, where a number of Hollywood celebrities have invested in the institution, including former NBA star Earvin "Magic" Johnson and singer Janet Jackson. Renamed OneUnited, the bank has seen its assets increase under Cohee by 45 percent, to \$636 million, in the past five years. And he has shifted the bank's lending focus to churches and minority developers, mainly to build multifamily apartments.

OneUnited says it made more than \$600 million in loans in the past five years to churches, affordable housing, office buildings, and retail stores, mostly in low- to moderate-income communities such as South Central Los Angeles and Roxbury. Among local projects: the Charles Street AME Church, a prominent black church that received \$4.8 million to build a 22,000-square-foot church and community facility in Roxbury.

The church's pastor, Reverend Gregory G. Groover, said other banks would not support its project. "When the other conventional banking institutions like [Bank of America](#) and Sovereign refuse to give institutions that are well-anchored in the community loans for growth, it's the banks like OneUnited that came forward and said, 'We support what you're doing. We get it,' " he said.

But some of the revelations in the government's cease-and-desist order have made others question OneUnited's priorities.

"That's one of the worst [cease-and-desist orders] I've ever seen," said banking specialist and OneUnited critic William M. Cunningham, a social investing adviser at Creative Investment Research Inc., an investment advisory firm in Washington. "My question is, why is this bank still open?"

Even before the regulators' order last fall, OneUnited had drawn modest or poor grades for its lending. In a 2007 Community Reinvestment Act review by regulators, the bank received a "satisfactory" grade for its lending in Boston during 2005 and 2006, due to "quite low" volumes of home loans, and was tagged with "substantial noncompliance" for its lack of lending in Miami. Only in California did OneUnited received an outstanding grade.

The Community Reinvestment Act, passed by Congress in 1977, requires banks to lend in all neighborhoods where they take deposits. But Cohee calls the act outdated, and, "not a thinking man's tool."

Overall, OneUnited's lending has been dropping sharply over the past few years, according to figures provided by the bank. [Total](#) lending volume was \$182 million in 2006, \$16 million in 2007, and a scant \$6 million in 2008. Bank officials predict lending will increase in 2009 to \$50 million.

Cunningham pointed out that in 2007, OneUnited made just two multifamily mortgages - down from 74 the year before.

"You really shouldn't go from 74 to 2. It shows a level of inconsistency and unpredictability," Cunningham said.

OneUnited's deposits in Boston have dropped by one-third in five years, to \$48 million, despite the opening of the Grove Hall branch in 2007, the bank's third in Boston. Plans to open at least two other branches have stalled. Meanwhile, deposits have grown slightly in Miami and are up robustly in California. Cooper, OneUnited's senior counsel, attributed the deposit drop to the loss of some government accounts.

Gail Snowden, the former head of community lending for [FleetBoston Financial Corp.](#), said minority-owned banks are facing much greater competition in their communities than they did in the past, in large part due to CRA requiring large banks to lend in minority neighborhoods.

"You can't just be a black-owned bank anymore," said Snowden, whose father was one of the original investors in Unity Bank & Trust. "You need a hook."

Cohee's hook appears to be lending to churches and developers, entities that he says allow the bank to reach its target audience and help rebuild neighborhoods. And he makes no apology for being the banker to wealthy customers in his market.

"We would have done a disservice to all the people in Boston who worked so many years to build this institution if the only thing we were was a small community bank," Cohee said. "We were never limited to that small a dream."