The New York Times https://www.nytimes.com/1999/07/11/nyregion/a-shaky-pillar-in-harlem-black-owned-carver-bank-seeks-solid-financial-base.html

A Shaky Pillar in Harlem; Black-Owned Carver Bank Seeks Solid Financial Base

By Leslie Eaton

July 11, 1999

As a symbol of Harlem's economic revival, almost nothing would seem to beat the Carver Federal Savings Bank building on 125th Street. Four shiny stories of stone and brass and skylights, it is a monument to the bank's five-decade transformation from a struggling storefront into a pillar of its flourishing community -- and the largest African-American financial institution in the country.

But the bright facade is deceiving. In the last few years, Carver has been beset by almost every problem a bank can face, including fire, fraud and deadbeat borrowers. It has annoyed customers, infuriated shareholders and angered some community leaders. And it has lost a lot of money -- $4.5 million in the last fiscal year alone.

Now a new president, Deborah C. Wright, 41, must try to bring into the 21st century an institution that she concedes is about 15 years behind the times -- and whose last effort to modernize ended in financial disaster.

And she may not have much time. Kevin Cohee, a rival banker from Boston who has proposed merging his black-owned bank with Carver, plans to run for a seat on the Carver board at the annual meeting later this year.

''There are a lot of folks with very different visions of what this bank should be,'' Ms. Wright said recently. But, she added, ''they are really all pressuring us to the same place'' -- profitability.

To many people in Harlem and the other neighborhoods the bank serves, Carver's history -- and its survival as an independent, black-run bank -- mean a lot. ''It is a very important institution both in terms of practicality and in terms of its symbolism,'' said the Rev. Calvin O. Butts 3d, pastor of the Abyssinian Baptist Church in Harlem, who got his home mortgage from Carver.

Whether Carver can recover will have implications far beyond New York. While they are writ large at Carver, the bank's problems are shared by many other minority-owned financial institutions, which tend to be small, conservative operations serving rural or inner-city neighborhoods.

The reluctance of these banks to take risks -- a trait that served them so well during tough times, including the savings and loan crisis of the early 1980's -- has become a handicap in the rapidly changing world of banking. Merely providing a place for people to park their money is no longer enough.

In the 1990's, bank customers expect instant access to their money, which requires expensive investments in technology. Big banks, forced by Federal law to lend money in inner cities, have discovered that they can make money there, and loom as formidable competitors to Carver on its own turf.

The competition is only getting tougher as banks merge or team up with brokerage and insurance concerns. Indeed, Congress has passed legislation meant to remove many of the regulations that have governed banking since the Great Depression, further blurring the line between savings banks like Carver and other financial institutions, like commercial banks and brokerage firms.

This brave new world has been hard for many banks, but minority-owned institutions have particular problems, said William M. Cunningham, president of Creative Investment Research in Washington, a company that monitors minority-owned financial institutions. ''They're too small, their costs are too high, and there's not a lot of innovation or vision about using the resources they have.''

Survival, Not Growth, Has Been the Challenge

That caution can be explained by their history. Born in the days of Jim Crow or in the early years of the civil rights movement, black-owned banks and savings and loans were for decades the only financial institutions serving their communities. They may not have had much competition, but neither did they have many financial resources.

''Growth hasn't always been the issue -- survival has,'' said Dina Nichelson, president of the American League of Financial Institutions in Washington, a trade association for minority-owned savings and loans. The number of savings institutions run by black, Hispanic or female managers has dwindled, she said, from more than 100 two decades ago to no more than 40 today.

Like many of these banks, Carver has been a prisoner of its past. It opened on 125th Street in 1949 with the backing of the cream of Harlem's black businessmen, as well as clergymen like the Rev. M. Moran Weston of St. Philip's Episcopal Church on 134th Street.

The founders stuck around for decades. Father Weston and Richard T. Greene, the longtime bank president, did not retire from the board until 1997, when both were well into their 80's. When it came time to pick new board members, they favored civic leaders like David N. Dinkins, the former Mayor, over businesspeople or bankers.

Innovators they were not. Carver did not get its first automated teller machine until 1989 -- long after they had become commonplace at other banks -- and its idea of advertising was mailing out a calendar.

Even worse than change, in board members' minds, was risk. Banks make most of their money -- and take most of their risk -- making loans. Carver made almost no loans, except to churches. Instead, like many other minority-owned banks, it simply accepted deposits and invested them in money market funds and mortgage securities, generating consistent but small profits.

The bank's caution only intensified in late 1990, when neighboring Freedom National Bank, then one of the largest black-owned banks in the nation, failed after having expanded too aggressively.

The memory of depositors lined up on 125th Street to try to get their money out of Freedom haunted Carver's board members, said David R. Jones, who joined the board in 1989 and is now its chairman. Mr. Jones, a former city official who is president of New York's oldest family welfare organization, the Community Service Society of New York, has had an account at Carver since he was a child.

In 1992, Carver started having serious problems of its own. A fire destroyed the bank's headquarters, forcing customers to take shuttle buses from Harlem to an office far downtown, in Chelsea, or to use branches as far away as Bedford-Stuyvesant in Brooklyn or St. Albans in Queens.

Meanwhile, Mr. Jones said, regulators began to complain that Carver had too little capital. The bank's board for once decided to do the financially fashionable thing -- sell shares in the bank, which had been owned by its depositors, to the public.

Ms. Wright, now the bank president, recalled being appalled by the news. She worked on Wall Street for three years in the 1980's. ''I didn't think they had any idea of the vast difference in what would be expected in terms of reporting, or of the rigor of focus on performance,'' she said, adding that she visited Father Weston, the bank's chairman, to beg him not to take it public.

Plunging Shares And Serious Missteps

But the deal went forward anyway. In 1994, the year Carver went public, it made headlines when its shares plunged instead of soaring like those of most newly public savings and loans, as investors looked askance at its poor profitability and low levels of lending. The bank took a $250,000 charge in November to settle a class-action lawsuit brought by investors who claimed that they had been misled when the bank went public.

Even after raising more than $20 million through the stock sale, the bank was still making very few loans. To this day, Federal regulators rate Carver's community reinvestment activity as only satisfactory, rather than the ''outstanding'' rating that they give big mainstream banks like Chase, which has three branches on 125th Street.

Some Harlem leaders contend that Carver has not kept up with the changes in the communities it serves, as the middle-class families with Caribbean backgrounds -- like those who founded the bank -- were displaced by immigrants from Africa, the Dominican Republic, Mexico and the West Indies. Carver ''did not keep up with changing times, did not go where the people were,'' said Lloyd A. Williams, president of the Greater Harlem Chamber of Commerce, whose grandparents were charter depositors at the bank.

The bank did start to change under Thomas L. Clark Jr., a former state banking regulator who became president of Carver in 1995. It began to make mortgage loans, and it bought loans originated by other banks. These moves were expensive, but they increased earnings over time.

But there were serious missteps. A new finance official was arrested on Federal charges of defrauding the bank; a resolution of the case is pending. A new computer system faltered and cost millions of dollars to fix. Grand plans to expand in Westchester County never came to fruition.

The worst mistake was a disastrous foray into credit cards, auto loans and other consumer lending. These areas are not intrinsically unprofitable; some banks make big money in them. But Carver lacked the staff, savvy and resources to do so, and an unusually high percentage of its borrowers defaulted on their loans.

The board fired Mr. Clark in January; he is now a senior executive at E. G. Bowman, a black-owned insurance brokerage in Manhattan. Mr. Jones said the board had agreed with Mr. Clark's strategy but not with the way he had carried it out.

Loan losses and computer costs forced Carver to take a $7.8 million charge in the previous fiscal year, which more than wiped out its earnings. It ended its fiscal year on March 31 with a loss of $4.5 million. Shortly thereafter, regulators sharply downgraded the bank's safety and soundness rating, and restricted its ability to make loans.

''This is like a soap opera that compressed everything that would happen to a bank into three or four years,'' said Mr. Jones, the board chairman.

A Leap of Faith, And Dreams of Success

After an extensive search by a recruiting firm, Carver's board decided to hire Ms. Wright as the new president; she took over on June 1. One of her chief assets, Mr. Jones said, was her ability to put together strong teams of people without offering top salaries. She served as the city's Housing Preservation and Development Commissioner before becoming president of the Upper Manhattan Empowerment Zone in 1996, and she had a good reputation in Harlem and among nonprofit groups.

What she lacks is experience in commercial banking; indeed, she lacks commercial experience of any kind, as Mr. Cohee -- the Boston banker who was once her classmate at Harvard -- likes to point out.

The board ''took a leap of faith on me,'' Ms. Wright said candidly.

She said she hoped to make the bank better at serving people like her, who would like to have accounts there if the services were as good as those at other banks. She would like the bank to advise local businessmen and women, not just on raising money, but on finding successors to run their companies. And she dreams of serving customers who are uneasy about banks but who must increasingly deal with electronic paychecks and benefits and tax refunds.

But she sounds pragmatic: ''We can't serve those people if we don't have our act together.''

The shareholders, however, may not be willing to wait. The bank's historically poor financial performance has meant that, during the greatest stock market surge in American history, the price of Carver's shares has actually fallen, from $10 in late 1994 to $8.25 as of Friday.

At the last two annual shareholder meetings, more than a quarter of those who voted favored a shareholder's proposal to try to sell the bank. The shareholder, Joseph Sonnenberg, a Manhattan retiree who lives off his investments, said he planned to offer the proposal again this year. The bank, he said, ''has to prove a lot and I don't want to wait around that long.''

He is not the only one. Martin J. Whitman, one of Wall Street's most seasoned investors, is Carver's biggest shareholder, with almost 10 percent of the shares. ''The African-American community needs some way to have a financial institution to call their own,'' he said. But he added, ''Obviously I have no reason to be terribly supportive of the old board or the new C.E.O.''

Then there is Mr. Cohee, who owns about 7 percent of Carver's shares and wants to join the board. He said he was not married to the idea of merging Carver with his Boston Bank of Commerce, which is much smaller but far more profitable. But things need to change, he said.

''I have a responsibility as an African-American who runs a community development institution and knows what impact this type of institution has on its community to see that the bank is strong enough to support the dreams and aspirations of its community,'' he said. ''If it isn't in a position to be effective, many people are hurt by that failure.''

No one is predicting that the bank will fail; for one thing, Federal regulators now have a mandate to preserve minority-owned institutions. But whether Carver can stay independent and thrive is unclear, especially if the economy turns sour or interest rates rise.

Other minority-owned banks around the country, facing many of the same problems and faced with the need to raise money that Carver had in the early 1990's, are watching the bank carefully, hoping that it will become a successful prototype for the minority-owned bank of the future. ''They're sort of paving the way in a lot of areas right now,'' said Bob Adkins, senior vice president of the Broadway Financial Corporation, which owns a $140 million minority-run savings bank in Los Angeles.

And even those who have sometimes been unhappy with the bank are rooting for it now. ''Carver is critical to the growth and development of Harlem, the Harlems of New York City,'' said Mr. Williams of the Chamber of Commerce. ''And if you believe Langston Hughes, as goes Harlem, so goes black and Hispanic America.''