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[Ethnic-owned Banks Weather Financial Storm](#)

by *Manny Frishberg*

Across the country and around the world, financial institutions that have been deemed “too big to fail” have been finding that size doesn’t necessarily matter. Banking goliaths like Washington Mutual, which rode the wave of easy mortgage money to become the largest savings bank in the nation, discovered that failure really was an option, after all. Citibank clawed its way through the Great Depressions of the 1820s and 1930s to emerge as America’s biggest bank and its parent company, Citigroup, is now one of the largest corporations in the world. Yet, the company finds itself on the ropes with stock prices down to nearly \$4 per share late last week.

Caught in these enormous currents, how is the relatively small Black-, Latino- and Asian-owned community banks fairing? Swimmably, in many cases. As it turns out, they are being buffeted by the waves of red ink that are sinking far bigger entities. Their very size - and their close connections to the communities they serve - has kept them from making some of the mistakes that have capsized the giants.

William Bradford, a business professor at the University of Washington who studies minority-owned businesses, recently attended a conference for African-American bank owners. Based on the conversations he’s had with community bankers throughout the country, Bradford says the picture is mixed. Some of the banks, which have a substantial part of their business in real estate loans, have taken a hit from falling home prices and the rise in foreclosures. Others that are less involved in the home lending market or that are rooted in communities not as hard hit by declining values are doing reasonably well.

“Community banks have tended to rely on the traditional, more conservative standards in deciding who to lend to, so they have been less likely to have been caught up in the rush to lend without looking too closely at a borrower’s ability to keep up on their payments,” explains Bradford.

In this worsening economy, banks are also more likely to examine a small business owner’s assets, collateral and personal investment in the company rather than look at future prospects and expansion plans. As a result, Bradford indicated that many businesses owned by women and people of color - which tend to be smaller and have fewer assets to begin with - are finding it harder to access loan capital to help fund their operations and expansion plans.



Carlos Guangorena
Frishberg

photo by Manny

Carlos Guangorena, president and CEO of Seattle-based Plaza Bank, sees that as a logical approach in a sagging economy. He says that during times like these, banks are less likely to invest in new businesses because they have less of a chance at succeeding.

“We’re more likely to mitigate some of that risk by taking more collateral, a second deed on a house or be more asset-based,” says Guangorena, who has been in the banking industry since 1980. “You continue to grow, but you’re just more prudent in the way you underwrite that credit.”

Opened in June 2006, Plaza Bank is doing well, with a corporate office in downtown Seattle and a banking branch in the Kent Station Mall. With \$22 million in startup funds from a number of prominent investors, including retired Mariners star Edgar Martinez, Plaza Bank has built a solid reputation for doing business within the Latino community. The bank offers a number of services in Spanish and English, including bilingual staff, loan applications, disclosure forms, checks, statements and online banking.

While the bank has successfully marketed itself to the Latino community, Guangorena makes it clear that they do not intend to be exclusively Latino-oriented. “We’re making efforts to attract all of the general population, but our focus - based on our owners and founders and senior management - is to focus on that aspect of the community,” says Guangorena, who was born in Delicias, Chihuahua, Mexico. “Instead of having, hopefully, one or two people that can speak Spanish, all our branches will have bilingual staff. That makes quite a bit of a difference.”

Over the past two-and-a-half years, Plaza Bank has logged impressive growth. For the quarter ending June 30, 2008, the company reported its total assets at \$82.2 million - up from \$57.1 million one year earlier - net loans of \$69 million and total deposits of more than \$58 million. One reason Guangorena says the bank has remained healthy is their decision at the outset to be a commercial bank and not get involved in residential mortgage lending. He admits this approach allowed them to dodge a bullet when the home mortgage meltdown occurred.

“We also dodged a second bullet by not buying mortgage-backed securities that were backed by subprime mortgages. Thirdly, we didn’t invest in Fannie Mae and Freddie Mac preferred stock, which is also part of that,” he says, referring to the two federally-created companies that

buy mortgage loans and together control about half of all residential mortgages in the U.S. “I’d like to think it was all because we knew exactly what was happening, but sometimes it’s better to be lucky.”



That is not to say that Plaza Bank has not had to scale back in the face of the economic downturn. Like other small businesses, some hard decisions are being made. When the bank’s doors first opened in 2006, local market areas were then ripe for expansion, including suburbs in the southwest, such as Burien, in the north, such as Lynnwood, on the east side of Lake Washington, such as Bellevue, and even as far south as Tacoma. But the dreams didn’t stop there, as Guangorena talked of plans for communities on the east side of the Cascade Mountains, too, including Yakima and Wenatchee, apple growing regions with a large Latino population base.

In light of the current economic situation, the bank has decided to wait until the economy improves before expanding its retail reach. Guangorena emphasizes that what they are putting off is “brick-and-mortar” expansion, not growth of the actual business.

“We’re still out there lending and we want to continue to lend,” says Guangorena, “so we’re not intentionally slowing down. The economy is slowing down. The only area we may have slowed down our efforts is from an overhead standpoint. That’s where we’re holding back. We’re not expanding to the level we had originally planned in a growing economy.”

Another issue Plaza Bank has to address, which has been made more difficult by the spate of bad news for banks in general, is that of trust. This is of particular concern to some of Plaza’s customers, because throughout much of Latin America, people do not have the implicit faith in the banks that is commonly found in the U.S. Guangorena says the Federal Reserve’s move to increase the amount of insured deposits from \$100,000 to \$250,000, albeit temporarily, has worked to their benefit.

“Banks are built on trust, but even more so with certain communities, such as immigrants or people who have never been in the banking industry before,” says Guangorena. “Trust is a huge issue so they [customers] don’t feel that once they put their money in their account that it’s either going to go away by the government taking it away and/or from undisclosed fees taking it away.”

Not all ethnic-owned banks have fared as well. On the other end of the country, Carver Federal Savings Bank, long among the largest African-American owned banks in the U.S., reported a nearly one-third drop in net earnings for the six month period ending September 30, 2008, compared to the same time frame a year earlier.



The bad news for the Harlem-based savings institution, which was co-founded by legendary Brooklyn Dodger Jackie Robinson, came despite the bank's holding company having posted a 54 percent increase in net income for the fiscal year ending in March 2008. By the end of September, total assets had fallen seven-tenths of a percent - or \$5.9 million - to \$790.7 million.

In June, Carver Bancorp chairman and CEO Deborah Wright told the Banking Business Review that the year they had just closed out was "a particularly challenging year for Carver," citing credit market disruptions and the threat of recession as reasons for the decline. "Nevertheless," she said then, "our business held up well, as the impact of national events has not been as apparent in our core markets."

Businesses, large and small alike, can expect their balance sheets to take a hit in the hard times predicted for the coming quarters. By staying close to home, the ethnically-oriented community banks can not only hope to avoid being swamped by financial swells, but can also look forward to smooth sailing in years to come.