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Banks Aid Financing for Black-Owned Firms

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The biggest banks in the U.S. will give Black-owned businesses advantageous terms on a crucial type of financing that companies use to manage their cash flow, a novel effort to narrow the wealth gap between white and nonwhite communities.

Banks made multibillion-dollar commitments to expand lending to Black consumers and businesses after the wave of protests throughout the U.S sparked by the killing of George Floyd. The targeted lending is meant to correct decades of discrimination in lending whereby banks denied loans to Black borrowers or steered them toward products with high interest rates and other terms many couldn't afford.

As part of those promises, Citigroup Inc., JPMorgan Chase & Co. and Bank of America Corp. say they will lower charges to Black- and other minority-owned companies in supply-chain finance programs. Companies use supply-chain finance to manage short-term spending needs, similar to the way a consumer might use a credit card.

In a typical supply-chain finance deal, a bank will pay a company's supplier faster than the normal payment terms, which, depending on the industry, typically vary from 30 to 180 days. In return for getting paid early, the supplier agrees to receive slightly less than it would get by waiting, and pays the bank a fee.

The company pays back the bank the full amount down the road, improving its working capital by padding out the time it gets to hold on to its cash. The bank profits by keeping the difference between what it paid the supplier and what it received from the company.

As part of their diversity efforts, the banks will pay Black-owned suppliers earlier than other customers or charge them lower fees, the banks say.

In most types of lending, the Equal Credit Opportunity Act and the Fair Housing Act forbid lenders from making credit decisions based on race. That prevents banks from giving cheaper interest rates on mortgages, for example, to minority applicants.

In the supply-chain finance business, by contrast, the supplier isn't receiving a traditional loan. Rather, the banks' financing relationship is with the company that buys the goods or services from the supplier. The client tells the banks which of its suppliers are eligible for preferential treatment. The banks then run checks to confirm the pool.

John E. Harmon Sr., president of the African American Chamber of Commerce of New Jersey, said the programs would help Black businesses grow faster and level the playing field. Supplier diversity has become a frequent topic of discussion with companies and financial institutions since the racial-justice protests, he said.

Banks have made efforts over the years to lend to Black and other-minority owned businesses. But progress has been mixed, and those businesses often fail to get access to the key types of financing that grease the wheels of commerce.

A December report from the Federal Reserve Bank of Atlanta found that while nearly half of white-owned small businesses got approval for all the financing they applied for in 2018, only 31% of Black-owned firms, 35% of Hispanic-owned and 39% of Asian-owned did.

In the wake of the protests, Citigroup duplicated an existing supply-chain program that extends preferential pricing for suppliers who meet environmental, social and governance criteria like committing to upholding the Paris climate agreement. The new program will focus on Black-owned businesses, said Ebru Pakcan, global head of trade.

"You have the effect of being able to support Black-owned businesses that are already in the marketplace," Ms. Pakcan said. "If growth opportunities have not been at par with others, if they have been disadvantaged in other ways, we are now giving them an extra advantage."

The first client to consider it is a large U.S. telecommunications company, whose program is likely to be implemented next year. The bank is initially targeting 150 suppliers of that client for improved terms or earlier payment, Ms. Pakcan said.

Big users of supply-chain financing include blue-chip companies such as Boeing Co. and Coca-Cola Co., which manage hundreds or thousands of suppliers at a time. The programs help companies conserve cash for longer. By paying suppliers earlier, it makes them more attractive to do business with.

Supply-chain finance deals are private, and public companies aren't obliged to disclose them, so it is difficult to put a precise figure on the size of the business. But there may be more than $350 billion of invoices involved in the supply-chain finance technique known as reverse factoring, according to research firm Aite Group.

Supply-chain financing spread after the financial crisis and has remained popular through the coronavirus pandemic. It comprises a small but growing part of banks' commercial banking operations. Banks took in $12.7 billion in revenue during the first half of the year from supply-chain finance, up 3.6% from a year earlier, according to research firm Coalition.

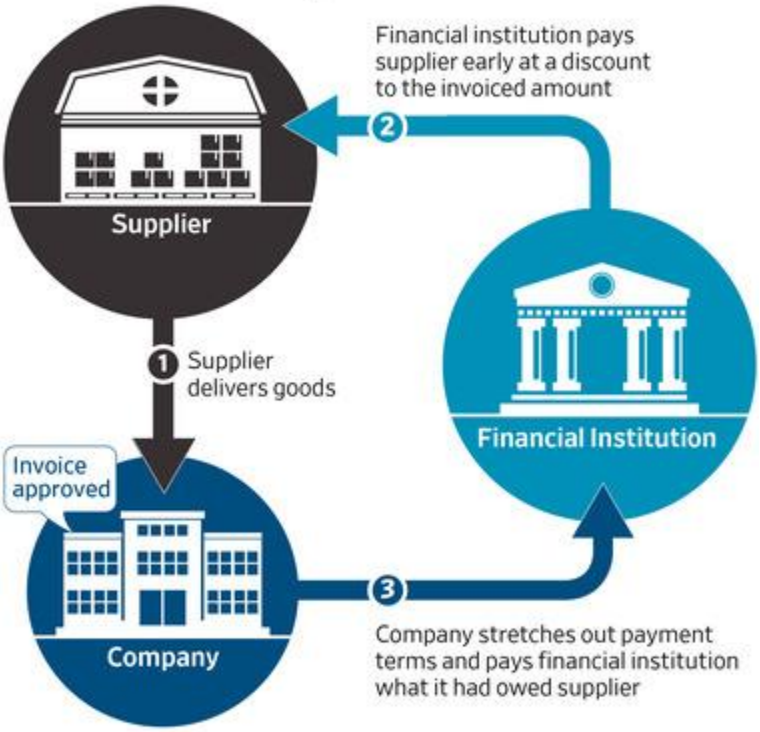
JPMorgan is crafting programs with better pricing for Black- and other minority- and female-owned suppliers, propelled in part by corporate clients reaching out to the bank on the topic, said Vasudha Saxena, head of trade in JPMorgan's commercial bank. The bank in recent months has been working with retail and industrial clients on programs.

Technology has helped widen the pool of suppliers. Typically, onboarding supply-chain finance participants has been paper-intensive, making it difficult for small businesses without large treasury departments to enroll. New **technology** is easing the process and allowing more access, she said.

Bank of America will use some of the proceeds from a $2 billion environmental, social and governance bond it issued in September to fund financing to minority-owned suppliers in the U.S. Black and Hispanic suppliers will get a discount on the rate the bank charges for supply-chain finance, said Geoff Brady, head of global trade and supply-chain finance.

The bank will target hundreds of suppliers in the next several months, he said. One goal of the program is for Bank of America to get access to new, diverse clients with the hopes of banking them beyond supply-chain finance.

A typical supply-chain finance transaction known as reverse factoring



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Big Banks See No Profit From Pandemic Loan Fees

By Stacy Cowley
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Banks collected at least $13 billion in fees on Paycheck Protection Program loans, according to a New York Times analysis. But the largest lenders say costs wiped out most of what they took in.

Loath to be seen profiting from the economic disaster caused by the coronavirus, the nation's biggest banks were quick to pledge that they would donate to charity any money earned from helping deliver the government's signature small-business relief plan.

That promise may be something of a mirage.

The banks that were the largest lenders under the Paycheck Protection Program, handing out government-backed loans and collecting a fee from taxpayers for their trouble, now say their expenses were so high that they expect to make next to nothing on the loans.

At JPMorgan Chase, the chief financial officer, Jennifer Piepszak, said on a quarterly earnings call in July that profit from the program "will be near zero." Her counterpart at Bank of America, Paul M. Donofrio, said he did not expect much profit, "if any."

The $525 billion program handed banks at least $13 billion in fees, according to a New York Times analysis of data from the Small Business Administration. The agency, which managed the program, has not released detailed fee information, and few banks have disclosed how much they took in. Their true profits won't be known until the loans, which will be forgiven if borrowers meet certain criteria, are all paid off or resolved.

But some banks are already saying their profits will be eaten up by the costs they incurred to make the program work, including all-nighters and rushed **technology** projects during four frenzied months of lockdowns and business closures.

Others, including many smaller lenders, expect the revenue from the program to pad their profits.

It's not clear why some banks are anticipating profits and others aren't. Calculating their costs is nearly impossible because the program was so unusual, said Saul Martinez, a managing director at the investment bank UBS. Pressured by the Trump administration to get money out the door quickly to legions of desperate businesses, banks paid overtime to squadrons of employees and hired consultants and **technology** vendors to help.

"How much profit a bank will make is a hard thing to gauge," Mr. Martinez said. "You can kind of guess the revenue impact, but it's harder to figure out the cost side. Some of the banks said they invested a lot and spent a lot of money. That's hard to verify."

The government paid banks a sliding fee ranging from 5 percent on loans of up to $350,000 to 1 percent for loans larger than $2 million. On the program's average loan -- of $100,729 -- a lender would make just over $5,000.

The government has not disclosed the total amount it paid to banks, but some details can be gleaned from government data disclosing the program's 5.2 million loans in broad ranges. Collectively, the 5,460 lenders took between $13.7 billion and $20.9 billion, according to the Times analysis. The Small Business Administration declined to comment.

Economists think the actual number is toward the upper end of that range, because most of the program's loans -- more than 87 percent, according to the Small Business Administration -- were on the smaller side, generating higher percentage fees. A research group from the University of Massachusetts Amherst's Political Economy Research Institute, for example, estimated the banks' total haul at $19 billion.

Analysts at Keefe Bruyette & Woods, an investment bank, believe the median fee paid to banks was around 3 percent. At that rate, JPMorgan -- the program's largest lender, distributing $29 billion to more than 280,000 businesses -- would have collected fees of $881 million. Bank of America, which gave nearly $26 billion to 340,000 businesses, would have received $767 million.

Bank of America, JPMorgan, Citibank and Wells Fargo, the nation's four biggest banks, all pledged not to profit from the program. Brian Moynihan, Bank of America's chief executive, told NPR, "We just have to cover our costs, and then we'll give the money to programs that we have to support small business and communities throughout the country."

But the program's expenses were also high, the big banks said. Bank of America devoted 10,000 employees to making loans at the program's peak, Mr. Moynihan said in July, and expects the next stage of the program -- helping companies through the paperwork to have their loans forgiven, if they qualify -- to be complicated and time consuming.

The fees his bank collected are "not insignificant," Mr. Moynihan acknowledged, but "there's a lot of cost against it."

While the big banks said they expected their costs to wipe out their profits, some smaller banks have acknowledged a windfall: Analysts at S&P Global Market Intelligence identified 88 community banks whose Paycheck Protection Program fees are likely to surpass the bank's entire revenue for last year. (One of them, Cross River Bank, became one of the program's largest lenders by making loans for dozens of financial **technology** companies.)

Zions, one of the rare banks to break down its lending in detail, said it anticipated fees of $210 million to $220 million on its $7 billion in loans. That money will be "a nice cushion for us" amid a decline in lending because of the pandemic, said Scott J. McLean, the bank's president.

Zions will profit from the program, but it, too, incurred heavy costs, said James Abbott, a bank spokesman. Loan officers and **technology** teams worked 24 hours a day in shifts, and the bank spent "tens of millions of dollars" on outside vendors and consultants, he said. Still, Zions said it would donate $30 million of its fees from the program to its charitable foundation.

Bank of America and JPMorgan declined to comment on what charitable donations, if any, they plan to make with their proceeds. (Each has made other large corporate donations in response to the pandemic.)

Some nonprofits, though, are starting to reap the rewards that banks promised. Citi, which made loans totaling $3.5 billion, has so far donated $25 million it earned in fees to the Citi Foundation, which funds community organizations focused on economic empowerment. And Wells Fargo, which is still struggling to rebuild its image after a sales scandal, is funding a philanthropic bonanza.

Wells Fargo is operating under a restriction imposed by the Federal Reserve that curbed its growth, but it struck a deal with the Fed in April to relax the limit so that it could expand its Paycheck Protection Program lending. That agreement required the bank to turn over its "benefits" from the program to either the United States Treasury or nonprofits focused on supporting small businesses.

The bank picked the second option: It is donating about $400 million in loan fees -- without subtracting its costs -- to a new fund to support Community Development Financial Institutions. Those lenders, known as C.D.F.I.s, focus on underserved communities and play a vital role in funding businesses and entrepreneurs that traditional banks avoid.

Wells Fargo expects to fund about 200 organizations through its donation, said Jenny Flores, the bank's head of small-business growth philanthropy. Nearly all of the money will be spent within the next year, she said.

The banks have donated in particular to groups focused on Black-led businesses and entrepreneurs of color -- a clear response to this summer's protests over police brutality and systemic racism. Citi directed $15 million of its donation to C.D.F.I.s to support minority-led businesses and those in low- and moderate-income communities. Wells Fargo sent $15 million to the Local Initiatives Support Corporation, a nationwide support group, to match crowdfunding loans through the online lending platform Kiva to entrepreneurs of color.

The $13.5 million that Wells Fargo gave to Expanding Black Business Credit, a fledgling venture that is raising a fund to capitalize Black-led businesses, is a game-changer, said Bill Bynum, the group's chairman.

The team behind Expanding Black Business Credit has been trying to get the project off the ground for four years. Banks including Wells Fargo had provided small grants and technical support, but no investor had been willing to write the first big check to stake the fund, Mr. Bynum said.

"After the health crisis, the economic crisis and now the racial crisis facing the country, a lot of businesses -- a lot of banks -- have paid more attention to the importance of strong action to close the wealth gaps that disproportionately affect communities of color," he said. "We hope Wells Fargo's infusion of support will inspire others to step up in a substantial way."

Bank of America, which gave nearly $26 billion to 340,000 businesses, would have received $767 million in fees by one estimate. (PHOTOGRAPH BY EDUARDO MUNOZ/REUTERS) (B4)

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