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Black-Owned Banks Must Revisit Their Business Models, M&F Chief Says

by [Kristin Broughton](#)

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One of the nation's oldest black-owned banks is revamping its business model.

Cognizant that the number of banks that cater specifically to African-Americans is in decline, M&F Bancorp in Durham, N.C., has launched an effort to expand beyond its core clientele. The 107-year-old company made headlines last week by recruiting a local lawyer to become its first non-black director.

The \$297 million-asset company will also rename its Merchants & Farmers Bank, rebranding as M&F Bank to attract more young professionals. That change should take place in the next few months.

"It's incumbent on us to try to reach new customers, to attract younger customers, and diversify our customer base," James Sills, the company's president and chief executive, said in a recent interview.

M&F's changes are important, given the pressures faced by minority-owned banks since the financial crisis. The number of black-owned banks has fallen from 51 in 2000 to just over 20 today, based on data from the Federal Reserve Board and Federal Deposit Insurance Corp. (Black-owned institutions Capitol City Bank & Trust in Atlanta and Highland Community Bank in Chicago failed earlier this year.)

M&F has always attracted a broad clientele, Sills said. "For generations here — that goes back to the '40s, '50s and even the '60s — we've had non-African American customers."

But M&F's client base is growing older and borrowing less. About 60% of the bank's customers are over 60 years old, Sills said. That puts pressure on the company's balance sheet. M&F's loan portfolio has shrunk 17% in the last five years, to \$169 million at March 31.

Sills discussed M&F's rebranding, and its future as a minority owned bank, in a wide-ranging conversation. Here is an edited transcript.

The number of black-owned banks has dropped in recent years, and many have struggled to stay profitable. What message should other community banks and, in particular, black-owned banks, take away from the changes at M&F Bank?

JAMES SILLS: When I first got into community banking... I think there were around 54 African-American community banks. That goes back to 1991. Today we only have 22. We started off 2015 with 25. Two of them failed, and one was acquired by another African-American community bank.

So the message to other African-American bankers is that they have to take a step back and look at their business model. Does it make sense to update your products? Update your look? Rebrand yourself? Pursue new customer bases? Focus more on technology, utilize social media more? You have to take a step back and say, "How can I attract new customers to my institution so that my asset base will grow overtime and into the future?"

Do you think that trend will reverse and more black-owned banks will open?

I just don't think we're going to have more African-American banks open. I still think you're going to see consolidation. I think it is incumbent on the ones that are remaining to make sure they're relevant and they're trying to reach out to as many groups or market segments in their various communities to make sure their bank is around for the next 15 or 20 years.

I just don't think you can rely totally on one segment of the community. I think you have to try to reach out to as many different segments as possible.

You're rebranding. How else are you trying to appeal to younger customers? What is your target?

Given that the average age of our customer is so high, we're really trying to target 30-year-olds to 55-year-olds. Older customers tend to be very loyal. Our customers are excellent, and they have very good depository relationships with us. But an older customer base doesn't really borrow. They're preserving wealth. They've probably already paid off their home. They're trying to prepare themselves for retirement. And, if they're in retirement, they're looking at potentially preserving their legacy and their wealth and passing it on to other generations.

So we see an opportunity to make money off of mortgages, business loans, SBA loans, home equity loans, car loans, consumer loans and credit cards. We want to get more in tune with people in their 30s to 55, because they're in their borrowing years.

Since your customer base is a bit older, have you expanded wealth management services to cater to them?

We have a wealth management division. We're working on different strategies to assist our customers who are either getting into retirement, or nearing retirement.

I want to go back to the millennials for a second. We do think it's very important that all banks try to hire millennials and have them as a part of their workforce. We have a very tenured staff here.

Why is it important to have millennials on staff?

If millennials are working within your organization, they can give you feedback on what you're doing right and what you're doing wrong. It's about their experience working in your institution. Young people don't come into branches, but when they come in they see people like them in the branch. They [may take you up on a product offer if] it's a younger person trying to cross-sell that product.

I don't know how familiar you are with North Carolina, but all of the markets we're in have a number of local colleges and universities. So we have to try to figure out ways to partner with some of these institutions.

When you look ahead five years, how will M&F look different than it does today?

My goal is in five years for M&F to be truly a community bank that services everybody, including the majority population and Latinos, and that we're servicing them with good products, good services and people feel good about recommending this bank to others in the communities that we serve. We're trying to position it where it's a community bank — and that's what I think is the key — and not an African-American bank.