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Research Article

Are U.S.-Chartered Chinese and Korean Banks Resilient in the Face of New Challenges?

Evidence from Los Angeles and New York

Michela Zonta

Abstract

This study discusses the empirical evidence regarding the direction of Asian American banks' evolution in light of the recent financial crisis and other challenges associated with the increasing competition from large mainstream financial institutions in ethnic niche markets. Specifically, the study focuses on the evolution of Chinese and Korean banking and its role in Asian neighborhoods during the past decade in Los Angeles and New York, the two U.S. metropolitan areas with the largest concentrations of Asian population and Asian-owned banks. Findings indicate that Asian banks have been able to sustain their presence and activities in coethnic communities in the face of the challenges associated with increasing competitive environments and the volatility of the financial market.

Introduction

The crucial role that the financial sector plays in immigrant community development is widely recognized (Li et al., 2002; Light, 2002; Logan and Molotch, 1987; Sassen, 1991). Today, more than ever, immigrant neighborhood formation represents an example of how the global circulation of money shapes new forms of urbanization and local socioeconomic landscapes, largely thanks to the dynamic transnational interplay of local and global finance (Hum, 2014; Martin, 1999). Asian-owned banks, both foreign and domestic, are among the several financial institutions that have been playing a key role in the transnational circulation of financial capital thanks to new technologies and the deregulation of national and international retail banking. Through their global and local activities, these banks have contributed to the expansion of Asian population and businesses and the creation of *transnationalized* local Asian American communities, especially in global cities such as Los Angeles and New York (Fong, 2010; Hum, 2014; Li et al., 2002, 2006; Saito, 1998).

Asian-owned banks have operated in a progressively challenging environment as contemporary financial markets have become more intensely competitive and unstable than in the past. Deregulation, globalization, and new technologies have allowed financial institutions to diversify their products and become competitive players outside of their traditional market niches (Martin, 1999). Financial markets have also become more unstable due to the increasing frequency of financial crises at different geographic scales. The financial crisis of 2007, in particular, has greatly contributed to a significant reconfiguration of the landscape of money as several financial institutions, both small and large, have gone out of business, and a wave of merger, acquisition, and takeover activity has impacted those that survived the crisis.

Asian American banks were not immune to the recent financial collapse. However, while a few Asian American banks have failed during the Great Recession, many others have been able to survive in spite of the financial challenges posed by the 2007 collapse and those associated with a competitive environment in their niche markets where large mainstream banks have been expanding their presence.

The increasing intersection of the markets served by Asian banks and mainstream banks is acknowledged in the literature on ethnic banking. Little empirical research, however, has been conducted to better understand the patterns of such dynamics. In addition, little is known about the extent to which the 2007 financial collapse has impacted Asian American banking and, most importantly, its niche market. The main purpose of this study is to explore the empirical evidence regarding the direction of Asian American banks' evolution and their activity in Asian neighborhoods in light of the recent financial crisis and other challenges associated with the competition from large mainstream financial institutions in ethnic niche markets. Specifically, this study discusses the evolution and lending activity of Chinese American and Korean American banking during the past decade in Los Angeles and New York, the two U.S. metropolitan areas with the largest concentrations of Asian population and Asian-owned banks.

After a brief review of the literature on Asian-owned banks, the article discusses the study areas, data, and methods utilized for analysis. The article then describes the current geographic distribution of Chinese- and Korean-owned banks and proceeds with a discussion of home mortgage and small business lending of Asian-owned banks in the study areas in the past decade, with a particular focus on the activity of these banks in Asian neighborhoods before, during, and after the financial crisis. A discussion of the findings concludes the study.

The Literature on Asian-Owned Banks

Asian-owned banks do not represent a new feature in the American financial system but have served Asian American communities for more than a century. Asian-owned banks have historically helped Asian immigrants overcome substantial barriers in the mainstream financial market due to their lack of credit and employment history in the United States, language gaps, and cultural differences, as well as widespread discrimination against minorities (Johnston, Katimin, and Milczarski, 1997; Light, 1972; Light and Bonacich, 1988; Ratner, 1996; Schoenholtz and Stanton, 2001).[1] Their geographic distribution influences how capital moves within and between communities, at both the local and global levels, by supporting entrepreneurship, home ownership, economic and community development, and the shaping of the built environment. Because of Asian banks' focus on relationship banking in coethnic communities and a general propensity of Asian customers to go to branches for services compared to other groups, there is a strong spatial and temporal correlation between the distribution of ethnic bank offices and coethnic populations (Li et al., 2002, 2014; Zhou, 1996). While some institutions, especially the headquarters of the largest banks, tend to be geographically concentrated in downtown areas, others—especially small community banks that focus on relationship banking—reflect the spatial distribution of the population and businesses they serve and are more rooted in the local community, where they perform the important role of retaining and investing large proportions of locally originated financial capital (Martin, 1999).

Recent research on the development and lending practices of ethnic banks claims that Asian-owned banks tend to rely on and serve coethnic customers, by availing themselves of informal sources of information and other ethnic resources, and by offering services and products that are difficult for coethnic customers to be obtained in the mainstream market (Black, Robinson, and Schweitzer, 2001; Black et al., 2003; Bostic, 2003; Dymski and Li, 2004; Dymski and Mohanty, 1999; Johnston et al., 1997; Li et al., 2001; Nopper, 2009; Zhou, 1996; Zonta, 2004). Their large presence in coethnic neighborhoods helps them reduce transaction costs, enhance proximity to the customer base, and reinforce interpersonal interactions in a social milieu characterized by common cultural traits and shared language (Lee, 1995; Zonta, 2012). Ethnic banks generally employ coethnic staff who speak the language of their customer base. Further, ethnic banks with foreign subsidiaries are often able to address the limited credit history and financial documentation of their customers in the United States by relying on information provided by their subsidiaries located in countries where applicants own property or businesses (Li et al. 2001; Nopper, 2009).

Changes in the global economy, the internationalization of finance, and domestic policies such as the Minority Bank Development Program have supported the growth of Asian banks in recent decades. Some important studies have examined the link between transnational flows of capital and the growth of Asian American banks (Dymski and Li, 2004; Li et al., 2001). In a comprehensive account of Asian American banking in the twenty-first century, Fong (2010) discusses how Asian American communities are now considered Pacific Rim economic outposts where cultural markets and continuous flows of financial and human capital promote economic development.

Asian banks have proliferated not only in early central-city Asian neighborhoods but also beyond their boundaries, by following the migration of coethnic population and businesses into the suburbs and contributing to the development of emerging Asian American communities (Fong, 2010; Lee, 1995; Li, 2006; Li et al., 2002, 2006). The service areas of Asian banks and mainstream financial institutions have increasingly intersected, often becoming a cause for concerns among small local Asian-owned banks (Crowe, 2006; Fine, 2006). The ethnic market—characterized by the strong saving habits of Asian immigrants and their propensity to invest in the establishment of small businesses—has attracted growing numbers of mainstream financial institutions (Li et al., 2002; Min, 1996).[2] As Zhou pointed out, mainstream banks have been successful in attracting deposits from immigrants, although they have not always met the credit needs of immigrant communities (Zhou, 1998). In addition, mainstream institutions have been able to tap increasingly into younger second-generation immigrants and recent immigrants who tend to be younger and have professional careers (Nopper, 2009; Stewart, 2015). Although they may initially lack ethnic resources, mainstream banks often gain them by hiring staff speaking the languages of immigrant customers or by promoting the cultural competency of their employees (Li et al. 2002, 2014).

While the increasing intersection of the markets served by Asian banks and mainstream banks is acknowledged in the literature on ethnic banking, little empirical research has been conducted to better understand the patterns of such dynamics. In addition, little is known about the extent to which the 2007 financial collapse has impacted Asian American banking and, most importantly, its protected market. This study attempts to fill this gap.

Study Areas and Background

This study focuses on the U.S.-chartered commercial and savings institutions that are owned, controlled, or managed by members of Chinese and Korean groups that operate in the Los Angeles–Long Beach–Santa Ana and New York–Northern New Jersey–Long Island Metropolitan Statistical Areas (MSAs), the two major strongholds of Asian-owned banks in the United States. The presence of Chinese banks in Los Angeles and New York dates back to the 1960s. The most significant development of Chinese banking, however, occurred during the following two decades, when political and economic turmoil in their homeland, the global recession of 1973, and the reclaiming of Hong Kong's sovereignty by the People's Republic of China led many middle-class residents of Hong Kong and Taiwan to transfer financial capital to Los Angeles and New York (Kwong, 1996; Lin, 1998; Portes, 1999; Smith and Zhou, 1995). Many Chinese-owned banks have played a critical role in the local real estate markets and were able to thrive even during the economic recession of the early 1990s, thanks to their dependence on investment capital from abroad and the high savings rates of the local Chinese community (Li et al., 2006).[3] Chinese-owned banks headquartered in Los Angeles, such as Cathay Bank and East West Bank, tend to be much larger in terms of assets than those with headquarters in New York.[4] A few Chinese-owned banks operating in the two metropolitan areas have offices overseas.[5] Most Korean-owned banks in Los Angeles and New York were established more recently and are smaller, in terms of total assets, than their Chinese counterparts. The first Korean-owned banks to be established in the Los Angeles and New York areas opened their doors in the 1970s and 1980s, respectively, as a response to the rapid growth of the Korean population in these areas (Pak and Huh, 1995). During the 1990s, the presence of Korean banks in the Los Angeles and New York regions further increased, targeting mainly Korean-owned businesses and population.[6]

Methods and Data

This study consists of a geographic information systems (GIS) analysis of the growth and lending patterns of U.S. chartered banks owned and/or controlled by Chinese and Korean entities in the two study areas, and covers the years from 2004 to 2014 to examine trends prior to, during, and immediately following the 2007 financial collapse. The analysis pays particular attention to the evolution of these banks in Chinese and Korean neighborhoods. For simplicity, the terms Chinese and Korean *neighborhoods* and *enclaves* are used interchangeably in this study to refer to large spatial clusters of Chinese and Korean population and businesses.[7] To empirically define these clusters, the study combined census tract information on Asians extracted from the 2009–2013 American Community Survey with information on small Chinese and Korean businesses coming from Dun and Bradstreet (D&B) data.[8] Local indicators of spatial association (LISA) were computed for both the population and the businesses in each ethnic group, and census tracts presenting significant positive spatial autocorrelation relative to the concentration of residents and businesses were then geoprocessed.[9] The resulting intersections were utilized to represent Chinese and Korean enclaves in the two metropolitan areas.

To identify Chinese- and Korean-owned banks, the study combined information coming from the Federal Deposit Insurance Corporation (FDIC) list of minority depository institutions, the Federal Reserve Board list of minority owned banks, and existing research, both published and unpublished. FDIC Summary of Deposits annual data from 2004 to 2014 were used to identify and geocode the addresses of all offices of commercial and savings banks operating in each year in the study areas.[10] Offices were then assigned census tract identifiers and selected demographic characteristics as well as indicators of whether they were located in a Chinese or Korean enclave. Data obtained from the FDIC Summary of Deposits were also utilized to compare annual deposits at Chinese- and Korean-owned bank offices with those at *too big to fail* (TBTF) bank offices in Chinese and Korean enclaves. Deposit amounts were adjusted to 2014 dollars. The TBTF banks consist of Bank of America N.A., Wells Fargo N.A., JPMorgan Chase N.A., and Citibank N.A., all with strong activity in the two regions. Data obtained from the FDIC Statistics of Depository Institutions from 2004 to 2014 were utilized to examine the structural characteristics of banks, such as the size of their assets and loan portfolios. Further, the service areas of Chinese- and Korean-owned banks in Los Angeles and New York were computed based on the methodology adopted by the 2014 FDIC's study of minority depository institutions.[11]

To analyze trends in home mortgage loans made to Asian applicants by Chinese- and Korean-owned banks, this study utilized annual Home Mortgage Disclosure Act (HMDA) data from 2004 to 2013.[12] The analysis was restricted to loans for the purchase of owner-occupied one to four family dwellings located within the metropolitan areas' boundaries. Finally, to examine small business loans by Chinese- and Korean-owned banks, the study combined Community Reinvestment Act (CRA) data with information coming from the Statistics of Depository Institutions provided by the FDIC.[13]

Results

The Growth of Chinese-Owned Banks

A few new Chinese-owned banks have emerged in Los Angeles and New York during the past decade, mostly in the years immediately preceding the financial crisis. These banks tend to be community banks with small assets (less than one billion dollars) operating a handful of offices located predominantly in the metropolitan area in which they are headquartered.[14] Several banks that were operating in Los Angeles and New York ten years ago are no longer active. While some have been acquired, others have downsized and established their offices in new markets. One large bank, United Commercial Bank, failed during the financial collapse and was acquired by East West Bank, which represents one of the two largest Chinese-owned banks in the nation, the other one being Cathay Bank.

Table 1 illustrates the numbers of offices of Chinese- and Korean-owned banks operating in Los Angeles and New York in four representative years of the credit cycle: (1) 2004, the first year of the study period, representing the period preceding the financial collapse; (2) 2008, representing the beginning of the financial crisis; (3) 2011, representing the beginning of the economic recovery; and (4) 2014, the last year of the study period. The table also illustrates the distribution of offices of Chinese and Korean banks in the largest Chinese and Korean neighborhoods in each metropolitan area. Finally, the table compares the size and growth rates of deposits at Chinese, Korean, and TBTF banks in Chinese and Korean neighborhoods.

In spite of an overall decline in the number of banks, the number of Chinese-owned bank offices has increased in both areas since

Table 1: Characteristics of Offices of Chinese- and Korean-Owned Banks

LOS ANGELES	2004	2008	2011	2014	NEW YORK	2004	2008	2011	2014
Total Chinese-Owned Banks	26	24	26	23	Total Chinese-Owned Banks	14	11	13	13
Total Offices	143	156	172	153	Offices	32	46	52	48
Chinatown	5	5	5	5	Chinatown	12	17	20	17
San Gabriel	56	59	67	61	Flushing	5	13	14	14
Eastern District	26	33	38	31	Sunset Park	4	6	7	7
Outside Chinese Neighborhood	41	40	41	37	Outside Chinese Neighborhood	11	7	9	8
Deposits in Chinese Neighborhoods					Deposits in Chinese Neighborhoods				
At Chinese Bank Offices (2014 billion $s)	$13.2	$16.4	$17.7	$21.5	At Chinese Bank Offices (2014 billion $s)	$1.6	$3.1	$3.0	$3.7
Growth Rate at Chinese Banks	100	123	133	162	Growth Rate at Chinese Banks	100	187	180	220
Growth Rate at TBTF Banks	100	122	178	204	Growth Rate at TBTF Banks	100	95	95	132
Total Korean-Owned Banks	9	13	13	11	Total Korean-Owned Banks	6	7	8	9
Total Offices	71	88	105	101	Total Offices	19	30	41	43
Koreatown	30	27	36	34	Korea Town	8	7	7	6
Gardena	6	13	12	11	Flushing	2	9	11	11
Cerritos	11	20	22	22	Bergen	5	11	17	16
Outside Korean Neighborhood	16	18	23	25	Outside Korean Neighborhood	3	1	2	6
Deposits in Korean Neighborhoods					Deposits in Korean Neighborhoods				
At Korean Bank Offices (2014 billion $s)	$6.1	$7.2	$7.9	$9.0	At Korean Bank Offices (2014 billion $s)	$1.5	$2.3	$2.5	$2.7
Growth Rate at Korean Banks	100	119	131	148	Growth Rate at Korean Banks	100	154	170	184
Growth Rate at TBTF Banks	100	122	201	326	Growth Rate at TBTF Banks	100	95	110	153

Source: Author's Calculations of Summary of Deposits, FDIC, 2004-2014.

2004. A total of twenty-six Chinese-owned banks operated 143 offices in Los Angeles in 2004. By December 2014, twenty-three Chinese-owned banks were active in Los Angeles, with a total of 153 offices. Similarly, despite a slight decline in the total number of Chinese-owned banks serving the New York metropolitan area (from fourteen to thirteen), the number of their offices increased from thirty-two in 2004 to forty-eight in 2014. Chinese-owned banks operating in Los Angeles and New York tend to locate their offices in close proximity to the ethnic markets they serve.[15] Despite their persistent stronghold in inner-city Chinatowns, Chinese-owned banks have continued to follow and support coethnic population and businesses in peripheral Chinese neighborhoods and *ethnoburbs*,[16] where the presence of mainstream banks may be stronger, especially in the case of TBTF banks, and where competition may be a challenge. In Los Angeles, while only a small number of offices of Chinese-owned banks continue to operate in Chinatown, the majority of Chinese-owned banks line the major commercial corridors of the San Gabriel Valley and the adjacent Eastern District suburbs. Further, about one-quarter of all Chinese-owned bank offices operate outside of Chinese neighborhoods. Here, however, the number of offices has decreased since 2004, in contrast with those located in Chinese neighborhoods. In New York, one-third of offices of Chinese-owned banks continue to be concentrated in Manhattan's Chinatown, although other Chinese neighborhoods have experienced a growing presence of these banks during the past decade. Since 2004, the number of offices located in Flushing has tripled and the number of those located in Sunset Park has nearly doubled. In contrast the number of offices locate outside Chinese neighborhoods has contracted since 2004.

Annual FDIC data reveal that the expansion of Chinese-owned banks has experienced significant fluctuations throughout the study period in both regions. This is clear when considering the growth in the number of offices prior to, during, and after the financial crisis. In particular, while the number of offices of Chinese-owned banks operating in Los Angeles and New York increased during the recession, their numbers declined in subsequent years, especially in Los Angeles. Further, in both metropolitan areas, the larger presence of Chinese-owned bank offices has corresponded to an overall increase in the size of deposits at these banks from 2004 to 2014. The growth rate of deposits made at offices located in Chinese neighborhoods, however, has been more pronounced in New York than in Los Angeles. Deposits at Chinese-owned banks in Chinese neighborhoods more than doubled in size in New York between 2004 and 2014, while in Los Angeles they increased by 62 percent. In addition, when comparing the growth rate of deposits in Chinese neighborhoods made at Chinese-owned bank offices with those made at TBTF banks, it is interesting to see that in New York the growth of deposits at Chinese banks has consistently outpaced that of deposits at TBTF banks. In contrast, in Los Angeles the growth of deposits at TBTF banks has tended to outpace that of deposits at Chinese banks, especially since the financial collapse.[17]

The Growth of Korean-Owned Banks

The growth of Korean banking in both areas presents two important trends: the emergence of several new small community banks in both areas during the years prior to the Great Recession and, most importantly, the expansion of the largest Korean-owned banks into new markets, both at the intra- and intermetropolitan level. Los Angeles–based BBCN Bank, Hanmi Bank, and Wilshire State Bank opened new offices in the New York metropolitan area, whereas New York–based Woori America Bank had established its presence in the Los Angeles metropolitan area by the end of 2014.

Korean-owned banks were not immune to the financial crisis, as the failure of Mirae Bank in 2009 exemplifies. However, the few banks that closed their doors or failed during the study period were absorbed by the largest Korean-owned banks, notably Wilshire State and BBCN, resulting in a retention of offices serving the coethnic community.

As in the case of Chinese-owned banks, Korean-owned banks have experienced important changes in the past ten years. The number of Korean-owned banks operating in Los Angeles increased from nine to eleven between 2004 and 2014. Further, the number of offices operated by these banks climbed from 71 to 101. In New York, six banks were operating in 2004, and their number increased to nine in 2014. The number of offices operated by Korean-owned banks in New York more than doubled between 2004 and 2014 (from nineteen to forty-three).

Similar to Chinese-owned banks, Korean-owned banks operate the majority of their offices within the boundaries of Korean neighborhoods. These banks have also expanded beyond these boundaries in both metropolitan areas, especially in Los Angeles where the number of offices in such areas has increased from sixteen to twenty-five since 2004. The headquarters of a few newly established Korean-owned banks are located in suburban areas. In Los Angeles, one-third of Korean banks tend to be clustered in the historic enclave near Downtown and along the Wilshire corridor. Several Korean bank offices, however, can be found increasingly in Gardena and Cerritos, where Korean banks have opened their doors in more recent years. In Cerritos, the number of Korean-owned bank offices has doubled between 2004 and 2014.

In New York, Korean-owned banks' headquarters and offices are clustered in Manhattan's Koreatown. While the number of offices located in Manhattan has decreased since 2004, the number of offices located in Bergen County has tripled and the number of offices located in Flushing in 2014 was five times as large as in 2004.

In both metropolitan areas the Hispanic population is overrepresented in Korean-owned banks' service areas, due in part to the location of their branches in multiethnic neighborhoods but also to the diversification of Korean banks' customer base. Both blacks and non-Hispanic whites, in turn, are underrepresented across the board.[18]

In both Los Angeles and New York, the growth rate of Korean-owned bank offices was particularly pronounced in the years prior to and during the financial crisis. The growth in the number of branches is reflected in the growth in the size of deposits at these banks in Korean neighborhoods. The growth rate of deposits at Korean-owned banks has been particularly pronounced in New York, where it has continued to outpace the growth rate of deposits at TBTF banks in the same neighborhoods. In contrast, in Los Angeles the growth rate of deposits at TBTF bank offices located in Korean neighborhoods has consistently outpaced that at Korean bank offices.

Home Mortgage Lending at Chinese- and Korean-Owned Banks

Chinese- and Korean-owned banks have traditionally occupied a very small space in the home mortgage lending market. Chinese-owned banks operating in Los Angeles and New York mostly specialize in commercial lending, with the exception of the Brooklyn-based First American International Bank, which specializes in mortgage lending. FDIC data on loan portfolios indicate that about one-half of loans originated by Chinese-owned banks with operations in both regions consist of commercial real estate loans.[19] Twelve percent of loans are for construction and land development, and an additional 15 percent is devoted to multifamily residential financing. Only about 9 percent of loans are for one to four family units financing. On average, small business loans represent one-third of loan portfolios at these banks.[20]

The loan portfolio composition of Korean-owned banks with operations in the two metropolitan areas reflects their general emphasis on small business lending. Loan portfolios are less diversified than those of Chinese-owned banks. Real estate loans at these banks predominantly fuel commercial real estate financing, while the average share of loan portfolios devoted to multifamily and one to four family units residential financing continues to be minimal.[21]

Tables 2 and 3 compare the trends and selected characteristics of home mortgage and small business lending at Chinese- and Korean-owned banks in Los Angeles and New York, respectively. HMDA data suggest that, despite the modest role that Chinese and Korean banks occupy in mortgage lending relative to mainstream depository and nondepository institutions, during the past decade the home mortgage volume of these banks has increased in Los Angeles and New York. Korean-owned banks operating in New York represent the only exception, as the number of home mortgage loans at these banks has continued to remain trivial. As Table 2 shows, there are some similarities between the trends in mortgage lending of Chinese banks operating in Los Angeles and those of Chinese banks operating in New York. In both areas, the volume of home mortgage loans originated by Chinese banks increased since 2004: it tripled in Los Angeles (from 125 to 420) and increased by a factor of six in New York (from 108 to 694). In particular, the volume of applications and loan originations at these banks peaked during the financial crisis, countering the overall decline in lending activity at mainstream banks and nondepository institutions during the same period. In New York, in particular, home mortgage loans originated by Chinese-owned banks reached a peak of nearly one thousand in 2009.

There are also some differences in the trends observed in Los Angeles and New York. While in New York virtually all loans have gone to Asian borrowers throughout the decade, in Los Angeles the percentage of loans made to Asians is smaller (80 percent in 2013) and has experienced significant fluctuations. Further, the share of loans sold in the secondary market peaked during the financial crisis in both areas. The percentage of loans retained in Chinese-owned banks' portfolios, however, has been higher in Los Angeles than in New York throughout the period. High-cost loans made by Chinese banks were less common in New York than in Los Angeles. The mortgage lending activity of Chinese banks in Chinese enclaves has continued to be more pronounced in Los Angeles than in New York, despite an overall decline since 2004. During the financial crisis, the share of loans going to Chinese neighborhoods declined in New York while it increased in Los Angeles. The San Gabriel Valley, in Los Angeles, and Flushing and Sunset Park, in New

Table 2: Home Mortgage and Small Business Lending at Chinese-Owned Banks, Los Angeles and New York, 2004-2013

LOS ANGELES	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Applications	165	155	132	130	191	552	904	428	245	773
Loans	125	101	94	75	117	336	610	221	179	420
% Sold in Secondary Market	4%	7%	45%	24%	30%	14%	12%	8%	5%	2%
% To Asians	85%	61%	53%	65%	86%	91%	91%	87%	98%	80%
% In Enclaves	71%	48%	45%	51%	64%	75%	60%	63%	64%	45%
High-Cost Loans	0	1	1	1	24	48	158	11	76	53
Loan Amount (000s)	$60,099	$53,701	$42,945	$32,680	$57,038	$110,502	$206,170	$68,308	$63,113	$161,972
Loan Amount in Enclave (%)	64%	49%	49%	59%	65%	72%	55%	56%	63%	45%
Small Business Loans	15,856	16,300	13,980	11,944	7,782	5,798	5,584	4,970	6,222	5,932
Amount (000s)	$3,214,544	$3,253,564	$3,151,312	$2,878,008	$2,041,912	$1,444,420	$1,618,238	$1,566,376	$1,989,212	$2,040,306
NEW YORK	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Applications	128	96	81	75	258	1156	1432	811	362	987
Loans	108	78	68	62	235	982	900	521	279	694
% Sold in Secondary Market	78%	69%	41%	40%	67%	96%	62%	31%	52%	27%
% To Asians	99%	99%	97%	100%	97%	98%	96%	97%	99%	99%
% In Enclaves	29%	29%	41%	44%	35%	34%	39%	36%	23%	29%
High-Cost Loans	2	1	1	0	28	10	29	2	2	1
Loan Amount (000s)	$31,755	$22,456	$24,261	$21,216	$81,736	$324,479	$274,083	$154,777	$91,973	$223,069
Loan Amount in Enclave (%)	27%	23%	40%	39%	33%	35%	40%	35%	20%	30%
Small Business Loans	1,336	1,430	1,692	1,516	1,022	698	692	696	804	1,060
Amount (000s)	$449,908	$378,132	$464,978	$525,836	$348,840	$218,210	$217,504	$265,026	$301,706	$404,910

Source: Author’s calculations of Home Mortgage Disclosure Act data, 2004-2013; Community Reinvestment Act data, 2004-2013

York, have attracted the large bulk of loans made to Asian home buyers by Chinese-owned banks throughout the study period.

Although the amount of home mortgage lending is in general much smaller at Korean-owned banks compared with that at Chinese-owned banks, Table 3 shows some similarities between the lending trends at Korean banks and those observed among Chinese banks, particularly in the case of Los Angeles, where the role of Korean-owned banks in mortgage lending is far more pronounced than in New York. The number of loans originated by Korean-owned banks in Los Angeles has more than tripled between 2004 and 2013 (from 85 to 295). In contrast with Chinese-owned banks, the lending volume at Korean-owned banks experienced a decline during the financial crisis and a sharp increase in the following years. Further, in Los Angeles the percentage of loans sold in the secondary market has been higher at Korean-owned banks than at Chinese-owned banks. The percentage of high-cost loans originated by Korean-owned banks increased in the years immediately preceding the financial collapse, while in the case of Chinese banks high-cost loans tended to represent a larger share of all loans after the recession. The large majority of loans at Korean banks have continued to go to Asian borrowers, many of whom bought homes beyond the boundaries of Korean enclaves. In 2013, only 34 percent of loans originated at these bank in Los Angeles were for properties located in Korean enclaves. Koreatown and the Garden Grove area have received most of these loans.

Small Business Lending at Chinese- and Korean-Owned Banks

In contrast with home mortgage lending, small business lending has historically represented an important niche for Chinese- and Korean-owned banks. Data on recent trends show that the volume of small business loans made by Chinese- and Korean-owned banks is much larger in Los Angeles than in New York. Loans originated in Los Angeles, however, have experienced an overall decline throughout the decade and resumed a slow growth in the postrecession years. The decline has been particularly pronounced for small business loans generated by Chinese-owned banks: their number dropped by ten thousand from 2004 to 2013. In New York, the small business loan volume at Chinese- and Korean-owned banks has dropped during the recession and resumed a growth in the postrecession years. The number of small business loans at Korean banks, in particular, increased from 194 in 2004 to 954 in 2013.

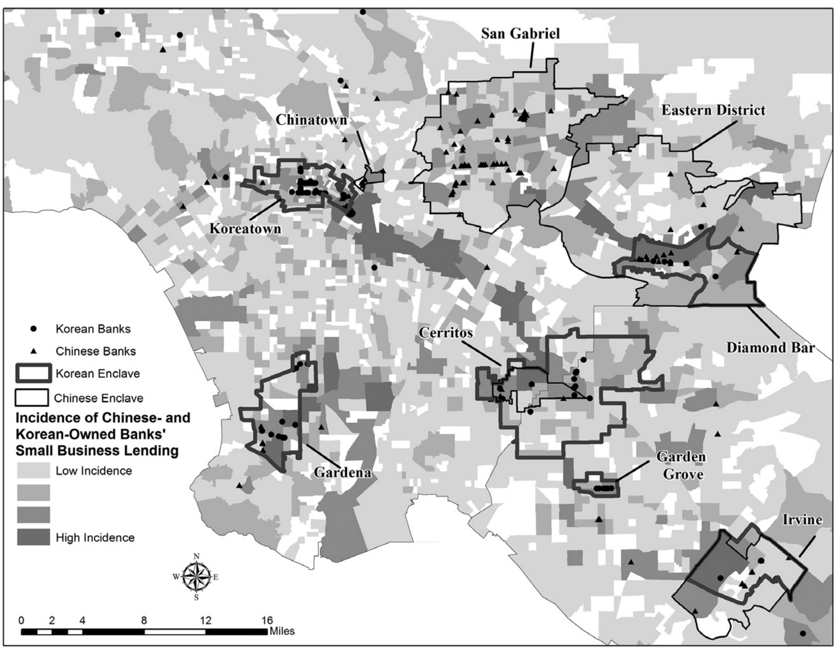
Table 3: Home Mortgage and Small Business Lending at Korean-Owned Banks, Los Angeles and New York, 2004-2013

LOS ANGELES	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Applications	112	129	75	89	61	62	204	244	367	417
Loans	85	95	56	63	43	36	156	172	257	295
% Sold in Secondary Market	48%	63%	70%	46%	19%	47%	55%	38%	43%	36%
% To Asians	80%	88%	88%	92%	93%	100%	88%	85%	91%	87%
% In Enclaves	41%	39%	27%	54%	51%	42%	31%	39%	40%	34%
High-Cost Loans	1	2	9	12	1	4	16	18	7	7
Loan Amount (000s)	$40,503	$51,372	$32,181	$28,806	$21,753	$13,451	$62,422	$61,244	$82,925	$109,803
Loan Amount in Enclave (%)	41%	43%	27%	49%	38%	34%	28%	32%	39%	34%
Small Business Loans	5,294	5,066	5,538	5,462	4,544	3,570	2,890	2,884	2,782	3,080
Amount (000s)	$2,114,272	$2,136,714	$2,227,508	$2,025,512	$1,529,134	$1,282,266	$1,066,070	$1,081,536	$1,102,006	$1,275,980
NEW YORK	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Applications	22	20	13	35	19	13	34	28	27	40
Loans	22	20	13	32	19	13	34	25	20	29
% Sold in Secondary Market	0%	30%	0%	3%	0%	0%	0%	0%	0%	0%
% To Asians	100%	90%	100%	100%	100%	100%	100%	100%	95%	97%
% In Enclaves	82%	80%	69%	62%	42%	23%	82%	60%	45%	59%
High-Cost Loans	0	0	0	1	0	1	16	4	5	2
Loan Amount (000s)	$7,149	$7,688	$7,090	$16,838	$9,637	$6,196	$12,697	$8,098	$8,866	$10,373
Loan Amount in Enclave (%)	78%	89%	50%	49%	32%	17%	69%	51%	32%	57%
Small Business Loans	194	296	682	1,046	1,164	926	684	736	828	954
Amount (000s)	$27,608	$133,924	$244,042	$265,002	$337,592	$273,754	$214,702	$259,346	$306,866	$377,042

Source: Author's calculations of Home Mortgage Disclosure Act data, 2004-2013; Community Reinvestment Act data, 2004-2013

CRA data on small business lending do not supply any census tract information for individual loans nor their recipients' socioeconomic characteristics. They indicate, however, the census tracts where any small business loans were originated by different institutions, making it possible to identify the incidence of small business lending at Chinese- and Korean-owned banks across census tracts within the two study areas. The maps in Figures 1 and 2 show the incidence of small business lending at Chinese- and Korean-owned banks in Los Angeles and New York, respectively, throughout the past decade. The census tracts in which any loans were originated by either Chinese- or Korean-owned banks during the study period feature a gray hue. The darker the hue, the more frequently loans were originated by either Chinese- or Korean-owned banks. In general, the highest incidence of small business lending at Chinese- and Korean banks can be observed in Chinese and Korean enclaves, which are characterized by large concentrations of Asian-owned banks and small businesses. In Los Angeles, however, small business lending by both types of banks has significantly occurred also beyond the boundaries of niche markets. The small business lend-

Figure 1. Small Business Lending in Los Angeles



ing activity of Korean-owned banks, for example, has encompassed a large territory south of Koreatown and the San Fernando Valley.

Discussion

Chinese- and Korean-owned banks have continued to grow in the Los Angeles and New York MSAs during the past decade despite an increasingly competitive environment in the areas they serve. Most important, Chinese and Korean banks have expanded their operations even during the recent housing-driven economic downturn, in contrast with many mainstream financial institutions.

Chinese- and Korean-owned banks have not been immune to the recent financial crisis. Like other mainstream financial institutions, these banks experienced a credit deterioration when the real estate market collapsed and, as a result, they had to manage through the credit cycle. Only a few banks, however, failed. In contrast with most mainstream banks, the number of offices of Chinese- and Korean-owned banks operating in Los Angeles and New York increased during the recession. Several small Korean banks opened their doors right before the finan-

Figure 2. Small Business Lending in New York

cial collapse, often with headquarters in suburban areas, and managed to remain open during the recession.

The analysis presented reveals complex dynamics and important differences between Chinese-owned and Korean-owned banks operating in Los Angeles and New York. In order to address the financial collapse, several Chinese-owned banks have undergone considerable restructuring. Consolidation, mergers, and acquisitions have been very common among Chinese-owned banks, as major national Chinese-owned banks have absorbed many small-size coethnic banks that could not survive the economic downturn. Korean-owned banks, in contrast, have experienced an overall expansion, and relatively low levels of consolidation.[22]

It is very likely that the proximity of Chinese- and Korean-owned banks to their market niche has contributed to their endurance during adverse times, when they needed to raise capital in order to survive. Indeed, Chinese- and Korean-owned banks operating in Los Angeles and New York have continued to locate their offices in close proximity to the ethnic markets they serve. The overall increase in the size of deposits at these banks from 2004 to 2014, particularly during the recession years, attests to their success in raising capital mostly because of their proximity to and reliance on the loyal ethnic market.

The loan portfolios of Chinese- and Korean-owned banks have traditionally been concentrated on commercial real estate. However, findings indicate that Chinese and, to some extent, Korean banks boosted their mortgage lending activity when the supply of credit by mainstream depository and nondepository institutions declined. It is possible that some of the banks that entered or enhanced their presence in the mortgage lending space benefited from their close proximity to their niche market. As previous research shows, for instance, during the financial crisis many customers with imperfect credit profiles were compelled to approach coethnic lenders through promotional materials displayed at branches located in Asian neighborhoods (Li et al., 2014). Despite the small space that they have continued to occupy in the mortgage lending market, the number and dollar amount of loan originations at Chinese-owned banks in coethnic enclave areas increased during and after the foreclosure crisis, especially in Los Angeles. The volume of applications and loan originations at these banks peaked during the financial crisis, countering the overall decline in lending activity at mainstream banks and nondepository institutions during the same period.

Home mortgage lending is less common among Korean banks than that at Chinese banks. However, the number of loans originated by Korean-owned banks in Los Angeles also increased between 2004 and 2013, particularly during the postrecession years. While in Los Angeles the largest portion of loans originated by Chinese banks has supported home ownership in Chinese neighborhoods, particularly in suburban wealthier areas, in New York areas beyond the boundaries of core Chinese low-income neighborhoods have continued to absorb the majority of home mortgage loans made by Chinese-owned banks. In general, the percentage of loans sold in the secondary market has been higher at Korean-owned banks than at Chinese-owned banks, most likely because of the smaller size of Korean banks in terms of assets and their modest mortgage lending activity. Further, the percentage of loans retained in Chinese-owned banks' portfolios has been higher in Los Angeles than in New York throughout the study period, plausibly because of the larger size of these banks in Los Angeles.

Anecdotal accounts claim that some ethnic banks were involved in subprime lending. The evidence presented here shows that some high-cost loans were originated by both Chinese- and Korean-owned banks, with some important differences. High-cost loans made by Chinese banks were less common in New York than in Los Angeles. Further, the incidence of high-cost loans originated by Korean-owned banks increased in the years immediately preceding the financial collapse, while in the case of Chinese banks, high-cost loans tended to represent a larger share of all loans after the recession. This evidence alone, however, is not sufficient for substantiating the claim that ethnic banks played any role in the subprime crisis. First, their presence in the mortgage lending space was very small compared to that occupied by other financial institutions. Second, available data do not provide any information on the credit risk of applicants and borrowers, which is important for understanding whether the high-cost loans originated by these banks were subprime.

In contrast with home mortgage lending, small business lending experienced an overall decline in Los Angeles, especially among Chinese-owned banks. In New York, the small business loan volume at Chinese-owned banks has returned to 2004 levels after a decline during the recession. Small business lending at Korean-owned banks, by contrast, considerably increased throughout the decade and especially after the recession, when a burgeoning demand for small business loans and a strong secondary loan market have encouraged more banks to expand their Small Business Administration operations (Cumming, 2014). In general, small business lending at Chinese and Korean banks has tended to occur predominantly in niche markets, which are characterized by large concentrations of small businesses, but also occurs beyond these market boundaries and among entrepreneurs in other minority groups.

Los Angeles and New York are very different with regard to the business environments in which Chinese and Korean banks operate. As the findings indicate, the volume and dollar amounts of small business loans originated by Chinese- and Korean-owned banks are much larger in Los Angeles than in New York, where Chinese and Korean businesses tend to be smaller than those located in Los Angeles. Los Angeles–based businesses are more diversified, feature larger revenues, and are characterized by a larger presence of high-skill professional and technical services. This is particularly clear among Chinese businesses, regarding which the differences between Los Angeles and New York can be explained by the different socioeconomic characteristics of the Chinese population (Zhou, 1998). While Los Angeles has historically featured a larger presence of Taiwanese immigrants with high levels of human and financial capitals, New York has traditionally attracted more immigrants from mainland China, who tended to feature a lower socioeconomic status. In general, the larger Chinese and Korean banking systems in Los Angeles signal a greater capacity in providing funding for large-scale real estate and commercial development in Southern California than in New York (ibid.).

The presence of Chinese- and Korean-owned banks beyond the boundaries of core enclaves has increased during the past decade, as these banks have continued to follow and support coethnic population and businesses in both long-established suburban enclaves and other emerging communities. Here they face a highly competitive environment resulting from the increasing presence of large mainstream banks in these same markets. This has been a challenge particularly for Korean-owned banks, which tend to be smaller in size than Chinese-owned banks and can be vulnerable to competition with large mainstream banks in terms of assets and range of services.

Korean-owned banks have been able to address competition in several ways. First, as ethnographic research shows, they cultivate their niche market by replicating norms of Korean banking culture and educating customers about American norms of business and banking (Nopper, 2009). Like Chinese banks, Korean-owned banks rely on relationship banking. Their focus on relationship banking and their privileged access to ethnic resources confer them a greater competitive advantage compared to mainstream banks when securing borrowers and avoiding risky deals. This is particularly critical for small community banks operating beyond the boundaries of core enclaves, where several coethnic business owners may have a limited familiarity with the mainstream banking and lending systems. Findings show that when engaging in home mortgage lending, Korean banks tend to do business predominantly with Asian borrowers. In addition, in order to minimize losses Korean-owned banks tend to lend mainly to existing businesses as opposed to start-ups (ibid.). Furthermore, Korean-owned banks have tended to establish their presence in new markets, both at the intra- and intermetropolitan levels, and have increasingly targeted new customers beyond their core demographics in order to boost their revenue and better fare in increasingly competitive markets (Crowe, 2006; Fine, 2006; Li et al., 2006; Stewart, 2015). In contrast with Korean-owned banks, some large Chinese-owned banks have continued to nurture their international linkages through their offshore offices (Fong, 2010). As discussed, having the opportunity to obtain information from foreign branches on customers' credit and business history in their home countries confers ethnic banks an advantage with respect to mainstream banks.

Competition from large mainstream banks has certainly been more pronounced in Los Angeles than in New York. Data show that the growth rate of deposits at Chinese- and Korean-owned banks in Chinese and Korean neighborhoods in New York has consistently been faster than that at TBTF banks. On the contrary, in Los Angeles the growth rate of offices and deposits at TBTF banks serving Chinese and Korean neighborhoods has consistently outpaced that of Chinese- and Korean-owned banks. This finding can be partially explained by the fact that the Chinese and Korean banking systems of New York are much smaller and more focused on their core markets than those operating in Los Angeles. For example, data indicate that in New York virtually all home mortgage loans originated by Chinese banks have gone to Asian borrowers throughout the decade whereas borrowers at these banks in Los Angeles include also members of other racial and ethnic groups. In addition, the spatial distribution of Chinese and Korean banks and the businesses they serve is much more dispersed in Los Angeles than in New York. As the findings presented here indicate, in Los Angeles the dispersed spatial distribution of small business lending by both types of banks reflects the dispersed location of both banks and businesses throughout the region, especially in areas where the presence and competition of mainstream financial institutions may be stronger.

In conclusion, this research indicates that Asian banks have been able to sustain their presence and activities in coethnic communities in the face of the challenges associated with increasing competitive environments and the volatility of the financial market. Their ability to address these challenges and to creatively adapt to the ever-changing financial and demographic conditions in the markets they serve is a key asset that supports the role of Asian banks as powerful engines for community development in immigrant communities.

Notes

The views and opinions expressed in this article are solely those of the author and do not represent those of the Center for American Progress.

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Notes

1. Credit to immigrant communities and businesses by mainstream financial institutions became more accessible through the Small Business Administration and the CRA of 1977 (Takaki, 1989).
2. The growing presence of mainstream banks in ethnic markets has been facilitated by the substantial changes in lending legislation that took place in the 1990s and that resulted in nonminority banks, especially large ones, shifting their roles and strategies and increasingly offering a variety of new mortgage lending products tailored toward immigrants. In an effort to lure minority markets, mainstream financial institutions have used a variety of marketing strategies and information channels to conform to the socioeconomic and cultural characteristics of their customer base (Listokin and Wyly, 2000; Schoenholtz and Stanton, 2001).

3. In the San Gabriel Valley, for instance, Chinese-owned banks financed large commercial real estate developments and the creation of small Asian malls and plazas.
4. In 2014, Cathay Bank's assets were 11.5 billion and East West Bank's assets were nearly 29 billion.
5. These include the Bank of the Orient, Cathay Bank, East West Bank, and Far East National Bank.
6. Such growth corresponded to improved economic conditions in South Korea since the 1997 Asian financial crisis. Korean banks have increasingly benefited from a customer base that not only comes to the United States with a fair amount of wealth, but also has a high preponderance toward savings and is very loyal to its local banks (Crowe, 2006).
7. The author acknowledges the fact that the notion of enclave as discussed in the sociological literature may not accurately reflect the different forms of contemporary ethnic settlement that, as in the case of ethnoburbs and invisiburbs, often represent new spatial models emerging in global cities and their suburbs (Airriess, 2006; Li, 2006; Li et al. 2006; Lin, 1998; Skop and Li, 2003; Zonta, 2012). For discussions of ethnic enclaves see, in particular, Abrahamson, 1996; Light, 1972; Portes and Bach, 1985; Portes and Jensen 1987; Portes and Rumbaut, 1995; Sanders and Nee, 1987; Wilson and Portes, 1980; Zhou, 1992; and Zhou and Logan, 1989.
8. Small businesses were selected based on number of employees (one through twenty) and minority ownership. The last names of executives at each business, which are provided by the D&B database, were then used to select Chinese- and Korean-owned businesses. The list of most common Asian last names in Lauderdale and Kestenbaum (2000) was instrumental in the identification of Chinese and Korean surnames. The addresses of selected businesses were then geocoded and mapped. Although the identified businesses do not represent the universe of small Chinese- and Korean-owned businesses in either study areas, their geographic distribution provides a reasonable approximation of the concentration of these types of businesses in the two metropolitan areas.
9. Local indicators of spatial association (LISA) represent the local version of Moran's I for the calculation of spatial autocorrelation and are used to account for the notions of spatial clustering and proximity implied by theoretical definitions of enclaves (Anselin, 1995; Lee and Wong, 2001). See Logan, Alba, and Zhang (2002) for a similar methodology in their study of immigrant neighborhoods in New York and Los Angeles.
10. For the purposes of this study, U.S. branches and agencies of foreign banks are excluded from the analysis.

11. The computed service areas of each bank include the census tracts in which banks' offices are located as well as the census tracts at a specified or *reasonable* distance for customers to travel to do their banking business in each metropolitan area. Based on the GIS analysis performed to calculate the service areas of banks in Los Angeles and New York, the "reasonable distance" is 1.17 miles and 1.04 miles, respectively. These distances were used to create buffers around each office. The population residing in the census tracts intersecting each office's buffer is assumed to be served by that bank office. The total population served by each bank in each metropolitan area, in turn, is the sum of the residents of census tracts served by its individual branches. See FDIC (2014).
12. HMDA data, made available by the Federal Financial Institutions Examination Council, provide information on mortgage loan applications received annually by depository and nondepository institutions. Each institution is required to maintain a Loan Application Register on which it enters data about each application received or loan originated as well as each loan purchased. In general, covered institutions report information about each application or loan—loan type, purpose, occupancy, amount, and action taken—and about the census tract of the dwelling to which it relates.
13. This is not a publication but a resource that is available online at: https://www5.fdic.gov/sdi/download_large_list_outside.asp
14. These banks include American Plus Bank, N.A., California Business Bank, First Choice Bank, First General Bank, Mega Bank, Pacific Alliance Bank, and Royal Business Bank in the Los Angeles metropolitan area. Global Bank and United International Bank represent their New York–based counterparts.
15. This is in contrast with the several Japanese-owned bank branches operating in the area, which are not discussed in this article. Japanese banks are more decentralized, consistent with historic trends (Light, 1972). This may be attributed to their broader customer base compared to Chinese and Korean banks, as well as to the fact that the Japanese population comprises fewer recent immigrants compared to other groups and features higher levels of residential assimilation throughout the region.
16. Li (1999, 2006) defines *ethnoburbs* as suburban ethnic clusters of residential areas and business districts in large metropolitan areas. The San Gabriel Valley of Los Angeles is an example of such forms of settlement.
17. The presence of TBTF banks increased substantially in areas such as the San Gabriel Valley, where Chinese-owned banks used to outnumber the number of TBTF bank offices prior to the financial crisis. In the growing Chinese community of the Cerritos area, however, Chinese bank offices have continued to outnumber those

operated by TBTF banks throughout the decade. Detailed data on the growth of TBTF bank offices are available from the author.

18. Data available from the author.
19. Data on loan portfolio available from the author.
20. It is important to keep in mind that small business and real estate loans overlap, therefore their percentages are not meant to add up to 100 percent.
21. Results available from the author.
22. This is consistent with the observation that the boards of Korean banks usually prefer to remain independent (American Banker, 2010).

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