

New bank with multiracial focus gets off to fast start

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There are over 140 minority depository institutions in the U.S., but only two are designated as multiracial.

The latest is [Genesis Bank](#), a de novo that opened its doors in August. The Newport Beach, California-based company is already mulling plans to raise additional capital, as it's seeing higher loan demand than it can meet.

Genesis funded its first loans this week, well in advance of the timeline it laid out during its organizing phase. But the bank has also had to turn away business “that is larger than our capital or our balance sheet can support,” CEO Stephen Gordon said in an interview. “That makes me miserable.”

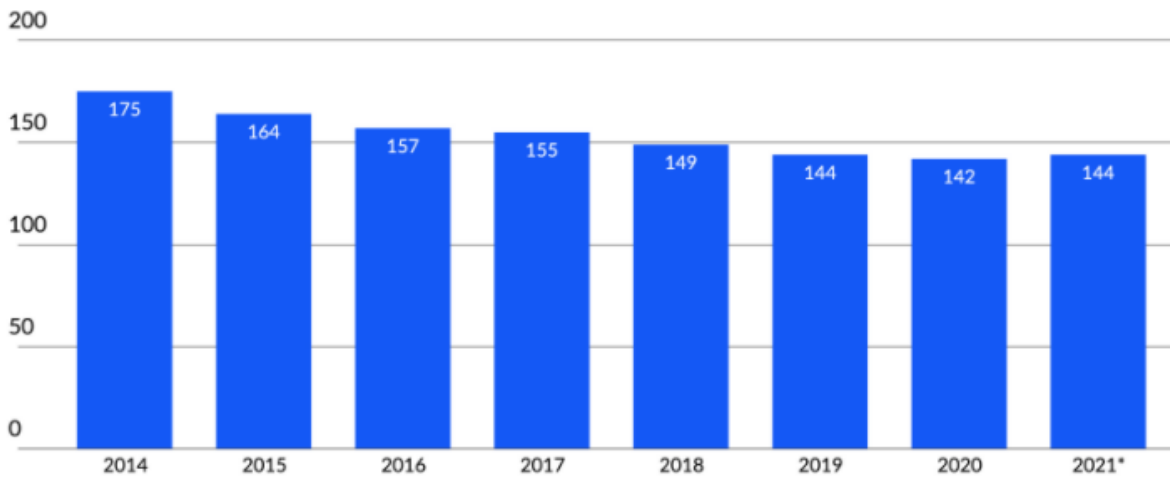
A new capital appeal is “highly probable” for Genesis, which raised \$57 million prior to its Aug. 4 start date, Gordon said.

“We do not want to be turning away business that is high-quality, really good business,” the veteran CEO said. Genesis is the third California community bank Gordon has helmed, after Opus Bank from 2010 to 2018 and Commercial Capital Bancorp from 1998 to 2006.

Banks that receive the MDI designation are eligible for support from government and private-sector backers. In March, for instance, the Treasury Department announced plans to [invest \\$9 billion](#) in MDIs and community development financial institutions impacted by the coronavirus pandemic. Last week, FDIC chair Jelena McWilliams [announced the creation](#) of a \$120 million Mission-Driven Bank Fund that plans to invest in MDIs and CDFIs.

New direction?

The number of minority depository institutions is poised to end a yearslong skid



Source: FDIC * June 30, 2021

While Gordon, who provided half of Genesis' initial capital and who also serves as chairman, is not not part of a minority group, the company's board and management teams are diverse, reflecting the demographics of its Southern California footprint.

As a result, Genesis is categorized as a multiracial minority depository institution, making it the second de novo bank to earn the multiracial classification, after the two-year-old [Piermont Bank](#) in New York. Most banks with an MDI designation received it due to ties to a particular

minority community.

A total of 116 of the 144 banks recognized by the Federal Deposit Insurance Corp. as MDIs as of June 30 made the list because of community ties, including 17 African American-owned, 18 Hispanic-owned and 62 Asian-Pacific-Islander-owned MDIs.

Multiracial MDIs, by contrast, must meet a two-prong test: They must serve a footprint whose population is predominantly minority, and their board must be populated primarily by a multiracial group of directors.

For his part, Gordon made no attempt to link Genesis' MDI status to the surge in business activity it is experiencing, — but the two may well be connected according to Chris Zingo, executive vice president for the Americas at the London-based consulting firm Finastra.

“Many mission-driven consumers are passionate about choosing a bank that aligns with their personal values,” Zingo said Monday. “When banks qualify for designations as a minority depository institution or as a community development financial development institution, it can be a powerful competitive advantage.”

According to Gordon, Opus Bank's footprint, which included San Diego, Los Angeles, San Francisco, Portland and Seattle, was diverse enough to allow it to be considered for minority depository status — except that its board lacked the requisite diversity.

“We had a nine-member board and I think at one point we had one minority. Shame on us,”

Gordon said.

Genesis Bank's footprint is concentrated in Los Angeles and Orange Counties, as well as the western sections of San Bernardino and Riverside Counties. This time, Gordon said he made sure Genesis' board reflected the diversity of that marketplace, appointing Asian, Black and Hispanic directors.

"We intentionally made sure that a majority of our board — four out of seven members — was representative of the communities where we're focused on doing business," Gordon said.

Pavel Chernyshov, co-founder of Arkview Capital, a Stamford, Connecticut private equity fund that holds a stake in Genesis, was among the original investors in Opus.

"What else do you need as a governing board of a bank than to have a pulse on the communities you're serving," Chernyshov said. "It's fantastic the direction [Genesis is] taking."

Chernyshov and partners Joon Chang and Vijay Mehta say Genesis' multiracial MDI status makes it even more attractive.

"We do think we have a better business model because we don't exclude anyone," Mehta said. The bank "is not focused on one group or another, it's focused on the entire diversity of the population of the broader Los Angeles area."

Piermont, which just crossed the \$300 million-asset threshold, didn't realize initially that it qualified as a multi-racial MDI. "That came as a surprise," CEO Wendy Cai-Lee said in an

interview.

Since opening its doors in July 2019, more than half of Piermont's lending has consisted of loans made in low- and moderate-income census tracts or to minority borrowers, a trend that's been driven in large part by diversity among the bank's senior leadership, Cai-Lee said.

"When you have a board and management team that is very diverse, you naturally hire a more diverse workforce and you are more willing to understand the pain points of minority borrowers," Cai-Lee said.

At Genesis, minorities may ultimately make up 75% of the client base, according to Gordon.

Both Gordon and Cai-Lee said they hoped their banks were starting a trend, and that more institutions would seek the multiracial designation.

"If we could convert 10% [of banks] to a more multiethnic, multiracial model, that would be great for our industry," Cai-Lee said.

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