



The Economic Club of New York

113th Year
566th Meeting

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President, Chief Executive Officer and Director
Carver Bancorp, Inc.

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Webinar

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Introduction

President Barbara Van Allen: Good morning and welcome everyone for joining us today. And we're going to get started in exactly two minutes. Thank you.

Vice Chairman Michael O'Neill

Good morning and welcome to the 566th meeting of The Economic Club of New York in our 113th year. I'm Mike O'Neill, Vice Chairman of the Club. With a distinguished history since 1907, The Economic Club of New York is the premier nonpartisan forum for timely discussions on a wide range of issues facing New York, the United States, and the world. Our mission is as important today as ever as we continue to bring people together as a catalyst for sharing diverse points of view.

Particularly during these challenging times, we proudly stand with communities seeking inclusion and mutual understanding. To put these words into action, the Club kicked off its Focus on Racial Equity Series where we have been leveraging our platform to bring together prominent thought leaders to help us explore and better understand the various dimensions of racial inequality and to highlight strategies, best practices and resources that the business community can use to be a force for change. We will be cataloging, publishing and sharing these insights broadly.

We're not doing this work alone and would like to give special thanks to our corporate partners – Bloomberg, Mastercard, PayPal, Taconic Capital and S&P Global – as well as the many members, speakers, and subject matter experts that are now and will be engaged in this important work.

Before moving to our program, I'd like to take a moment to recognize those of our 312 members of the Centennial Society attending today as their contributions continue to be the financial backbone of support for the Club and help enable us to offer our wonderful, diverse programming now and in the future. A special welcome to members of the ECNY 2020 Class of Fellows, a select group of rising business thought leaders. I'll make special note that applications for the 2021 Class are now open. Any member interested in nominating a fellow can visit our website for more details. We'd also like to welcome graduate students from Baruch Zicklin School of Business and Stony Brook.

It's now an honor for me to introduce our special guest today, President and Chief Executive Officer of Carver Bancorp, Michael Pugh. Carver Bancorp is a holding company for Carver Federal Savings Bank, a federally chartered institution and the nation's largest publicly traded African and Caribbean-American operated bank with approximately \$600 million in assets and 140 employees.

A banking veteran of more than 25 years, Michael has led teams of up to 600

associates in retail, business banking, commercial and residential lending, and call center operations. He has also been a critical leader in bank technology integrations, launched new lines of business, and executed new growth market strategies.

Prior to joining Carver in August of 2012, Michael worked at Capital One as Senior Vice President, Regional Executive and Market President of Eastern Maryland, Delaware, and Washington, D.C. He was responsible for revenue production, customer service, and bank operations for approximately 75 banking centers and \$3 billion in deposits. Also, Michael led the bank's community development strategy for 1,200 associates and eight counties.

The format today is a conversation in which we are fortunate to have Deputy New York Bureau Chief and Senior Editor for the Americas at Bloomberg Live, Shartia Brantley, doing the honors. We will end promptly at 11:15. Any questions that were sent to the Club from members in advance were shared with Shartia. As a reminder, this conversation is on the record as we do have media on the line. Shartia, over to you.

Conversation with Michael T. Pugh

SHARTIA BRANTLEY: All right, thanks so much, Michael, for that lovely introduction. And I'm happy to be joined by another Michael, Michael Pugh from Carver. I'm thrilled to

be here. Welcome Michael.

MICHAEL T. PUGH: Thank you. It's a pleasure to be here. And Michael, thank you for the introduction as well.

SHARTIA BRANTLEY: Before we dive into the discussion, and Michael gave us a great overview, but can we just take a step back to discuss the rich history and mandate of Carver.

MICHAEL T. PUGH: Sure. I'm happy to do so. So Carver was founded in 1948 and it was founded by a group of civic and community leaders that were frankly pioneers. They decided to get together and effect change in local communities for people of color within Greater New York City – the group comprised of small business owners, faith-based leaders. What was really unique about that time is that it was also a company that included an African-American female that was part of the founding members.

And they decided to get together and form a bank because mainstream banking solutions were frankly just not available for people of color. They applied for a charter in New York City, or the state of New York actually, and they were declined that initial application. So they applied for a federal charter and out of it was born Carver Federal Savings Bank. They opened their first branch in Harlem in 1949 and 72 years later, we

still stand.

I think one of the important things to call out about this wonderful institution that I've had an opportunity to be a part, is that the scope and remit of the organization has continued to focus on economic empowerment and especially with people of color. And throughout, our focus has also continued to have an emphasis on women-owned businesses and entrepreneurship. And so we continue that work and we'll talk more about that throughout today's discussion.

SHARTIA BRANTLEY: Wonderful. How would you characterize the state of Black-owned banks today?

MICHAEL T. PUGH: So there's certainly been a precipitous decline in terms of the number of Black-owned banks that exist. I think the studies show that approximately ten years ago there were more than 50 Black-owned banks that existed and today we have approximately 21. One of the key distinctions, of course, is Black-owned versus Black-managed. Carver happens to be a Black-managed financial institution because we are publicly traded. And the difference, for the Federal Deposit Insurance Agency, really looks at what percentage of your board is responsible for overseeing and governing the bank. Today 100% of our board is comprised of African Americans and Caribbean Americans. But we, again, we are a public institution.

For Black banks, this decline that we just touched on has largely been brought about by a number of things in the regulatory environment and frankly the cost of doing business. When you look at where we were ten years ago, the average assets that were circulating within Black-owned banks was approximately the same as it is today. So you're talking about roughly \$5 billion in assets that are under management with approximately 21 banks yet African Americans contribute to about \$1.1 trillion in terms of spending power in our economy. So there's certainly some work to do, I think, there in terms of creating consciousness and awareness for supporting these institutions. But again they frankly have a struggle to survive as the regulatory environment and the cost of doing business has been a contributing factor to many of them closing.

SHARTIA BRANTLEY: That's very interesting. Let's talk a little bit about how pivotal Black-owned banks, Black-managed banks are to Black-owned businesses especially during this unprecedented time we see ourselves in with the Covid-19 pandemic as well as this reckoning on race that we're seeing all across the nation as well.

MICHAEL T. PUGH: Sure. Well, I think what this environment has taught us is that one of the most important things that we can have is social capital, relationships, the ability to pick up the phone and call someone that is in a decision-making position to frankly help you, especially if you are a small business entrepreneur and you're trying to figure out how to navigate through a really difficult time. In many cases, particularly for banks

like Carver, customers might have chosen us because of our legacy, our history in terms of what we stand for, which is economic empowerment and supporting all communities with an emphasis, of course, on communities of color. But we aren't a bank that's on every street, major street corner. You know we don't have 5,000 branch networks across the country. And it's not likely that that will happen in the next couple of years for us, to say the least.

However, we have a laser focus on helping to touch small businesses and be able to move them from a point of conception, in terms of an idea and launching it, to actually reaching a point of sustainability with their business. That's a unique proposition that a bank like Carver offers because we are willing and committed to spending the time and we understand, based on our history, the effort it takes to support small business entrepreneurs and particularly minorities – women and minorities that are small business entrepreneurs

I think this, the current pandemic and the social climate, going back to this point about consciousness and relationships, it has caused us to take inventory and ask ourselves important questions about social capital. You know who do I know that can help me? Where am I spending my money? How is my money impacting the communities that are important to me? And we're seeing that as a result of this unfortunate time in our nation, and frankly in the world, institutions like Carver are making the radar again because we

are all becoming much more conscious of the importance of change and supporting businesses that make a difference.

SHARTIA BRANTLEY: You spoke about access to capital and how you work with your customers. What can some of the larger banks learn from what you're doing at Carver? Why is it so many Black-owned businesses have issues and women entrepreneurs have issues with getting access to the capital that they need?

MICHAEL T. PUGH: Sure. Well, I think some of the key things for, you know, small businesses, and there was an interesting study from Guidant Financial that talked about the challenges for small businesses is the lack of capital, obviously we're talking about. And that's through, whether it's through equity or debt, you know, the ability to borrow. It's understanding marketing and advertising from a business standpoint. There's a component, I think, that's really tied to talent and technology as well. I think where some of our larger financial institutions are spending their time, especially now, they're becoming much more conscious and taking a stance to help small business entrepreneurs especially during this difficult time. But Carver has been doing this for 72 years. It's part of who we are.

Some of the key things that I would say where frankly it really matters and there has to be ongoing effort, financial education as an example. We've spent more than 15,000,

we've educated more than 15,000 people over the past few years in terms of providing money management skills and training that will help consumers think about their first time home purchase and will also help business owners think about how to effectively understand a balance sheet and income statement, how to put together a business plan that will allow your business to thrive and manage through difficult times.

The educational component is mission critical. I think all financial institutions have a responsibility to participate in that component because we know that if we get involved in helping small businesses and consumers develop those money-management skills, it will – from an ecosystem standpoint – ultimately help the economy and certainly local neighborhoods block by block.

I think the other component that this pandemic has caused us to take pause and think about is how do we support businesses from a technology standpoint? For many small business entrepreneurs that have historically relied on brick and mortar as their primary channel to attract consumers, we now are invited to think about how to reach consumers in a digital era. And what that basically means is if you're in a food service business or you've got, you have a great product that you are taking to market, consumers may be hesitant to come into a store today, but if they have access to your website and the ability to order your product and for it to get delivered to their doorstep, your sales and overall business can frankly thrive and survive through this difficult time.

So we must, as financial institutions, and particularly for community development, institutions like Carver, we have to be involved in providing access to technical support so the small business entrepreneurs can make this change that will be needed and ultimately be able to sustain themselves.

SHARTIA BRANTLEY: Great. Let's talk a little bit about PPP. You know there was a survey from the National Bureau of Economic Research that showed that 41% of Black businesses have gone out of business during this pandemic compared to about 17% of White-owned businesses. What is the role of assisting Black businesses and applying for loans such as PPP? Because initially the word on the street was that, you know, Black businesses were kind of left out of that initial tranche of funding.

MICHAEL T. PUGH: Yes, so the Paycheck Protection Program was one that the first tranche of funding for the program – to your point – many small businesses were truly left out of this initiative. And, you know, I think it deserves saying that our government, the administration, was responsive to come up with a stimulus initiative designed to ultimately support small businesses. However, the implementation of it in uncharted territory, many of us have never seen a time like this, it was very difficult and there were some components of it that frankly left out the most important businesses as you think about it. The Small Business Administration defines small businesses to be approximately 500 employees or less. Many of the small businesses, particularly those

that are within African American and the Latino segment of our country, those businesses have a lot less than 500 employees.

So when you start to think about the businesses that were in communities, local neighborhoods that Carver – as an example – serves, you're talking about businesses that have 50 or less employees and many of those businesses may not have had access to an accountant, an attorney, and, you know, the person that's developing the creative content or the product may not be the right person to help fully address all of the financial requirements that were needed in order to meet the SBA demands associated with the Paycheck Protection Program.

So what we saw is that our role was to spend quite a bit more time supporting small businesses, again hand-holding them through this process. One of the key things that Carver did was to develop technical assistance partnerships with approximately four organizations throughout the boroughs here in Greater New York City. Those organizations were responsible for reaching out to small businesses within their local footprint and helping to provide education and tools around getting ready for PPP. Unfortunately that didn't happen for the first launch. But by the second time, this was a critical component that we identified. And by the time that then you could help these small businesses get the information, the records that they needed to support and apply, they could effectively be referred to us and we would help to navigate them

through the process. We were very proud as a community development financial institution to support this initiative with more than 3,500 jobs that were preserved as a result of our efforts. We provided access to capital, more than \$35 million, again to small businesses that are in our community.

The other point I'll just call out here is that frankly more work has to be done. Where you started, Shartia, you called out an important point which is approximately 41% of African American businesses have closed or are expected to shutter as a result of this pandemic. And what we know is that there has to be, we have to continue to think about re-imagined ways that we can support small businesses through this difficult time. For many of them, the occupancy expense associated with running their business is a critical factor, and then other operating expenses, those are the things that frankly, as our administration continues to think about ways to support small businesses, they will need to be addressed.

I was recently in a meeting with one of our local, with a congressman, Congressman Espaillat, and we talked about this issue. And I was delighted to hear that it's certainly on the radar for our administration to think about how to support small businesses because the next two years will certainly be a challenging time.

SHARTIA BRANTLEY: Michael, what are you hearing from some of your customers

right now? How are they faring?

MICHAEL T. PUGH: Yes, it's an excellent question. I think there's a tale of two things that's happening. One is a level of gratitude because there are many small businesses that are saying, had it not been for institutions like Carver that have taken a real interest and commitment to walking us through critical steps and being accessible for us we may not be here today. But then there's also this other harsh reality which is many small businesses just haven't figured it out. They're not sure what it will mean for them in the future in terms of their ability to sustain.

We know that as of September the unemployment rate remained around 7.9% or so. And so, you know, you've got, also as we approach the holiday seasons and critical times, you have the real reality that many are also thinking about their financial livelihood and the ability to navigate through this difficult time.

I think the important thing for us and the leadership team at Carver, certainly for minority deposit institutions like Carver, is that we have to continue to stay very connected to our customers, reaching out to them, and continue to have these kinds of forums, particularly for small businesses to help make sure that they understand how to navigate through the forgiveness process of the PPP initiative, how to get access to other vendors and services that may be able to help their business operate more

efficiently, how to become aware about various stimulus programs and initiatives at the state and federal level that they can qualify for. And that's how we're spending our time today is just to help our customers in our community navigate through this difficult time.

SHARTIA BRANTLEY: You mentioned gratitude, can we talk a little bit about the Buy Black and Bank Black Initiative and what impact that has had on your organization. Are you seeing an increase in business as people around the country say, you know what, I want to put my dollars to work for the community?

MICHAEL T. PUGH: Sure. So we have seen, we've seen just quite a bit of progress and results in terms of this initiative. More than \$16 million in new deposits has come to our bank this year. And this is, you know, primarily from consumers that have again become much more conscious and aware of institutions like Carver, what we do, and asking themselves an important question of, you know, how do I get involved and make a difference?

So we've been very proud about that and I think the other key thing is that it has afforded a community bank like Carver to also reconnect in many ways within the African American community because, you know, frankly within the African American community for so many years people of color did not have access to mainstream banking solutions. When the access became available, oftentimes for institutions like

Carver, we may not have made the top of the list for banks in terms of consideration within, again the African American community. And we now are back on that radar. The most important reason, I think why, is because of what we do. You know 80 cents of every dollar we have on deposit gets directly reinvested in the communities that we serve.

And you heard me talk about more than 15,000 people educated from a financial education standpoint and being a premier bank, I think that's focused on women and minority business entrepreneurship through various programs that we've launched over the years. We've consistently received, from a Community Reinvestment Act standpoint, an outstanding rating. So when you take those things in aggregate and you think about, well, gee, an institution that is, you know, laser-focused and committed to making an impact, economic empowerment, why not be a part of that in some way, regardless of your racial ethnic background.

You know, because if those things matter to you, if it's important that you want to be a part of economic empowerment, the advancement of women entrepreneurs, the support of communities being able to sustain within their local footprint because of jobs that are added, we're the right type of institution to be a part of. And I think that's the beauty of what we're seeing now as part of some of this unfortunate set of events that's happening in the world, but it is causing much more awareness of Carver.

SHARTIA BRANTLEY: Speaking of which, I believe back in June, B of A announced, Bank of America announced that they would invest about \$50 million in Black banks, and I believe they took a 4.9% stake in Carver. Can you talk to us about how this will allow you to continue to help small businesses?

MICHAEL T. PUGH: Yes. So you're absolutely right. They took a 4.9% stake in common equity with Carver. We've been very proud of the partnership with Bank of America thus far. And this is an example in terms of the work that's being done by large companies to insist on much more racial equality, advancement for women and minorities in terms of entrepreneurship.

So what we're proud about and excited is that this type of investment capital is extremely important because it will allow us to leverage that capital by providing loans at relatively low cost to small business entrepreneurs. It will allow us to continue to make investments in our technology. We're now an institution that's available in nine states if you include Washington, D.C., digitally available there, and that's from Massachusetts to Virginia. So what we really believe is that our ability to take our brand, our mission in terms of focusing on small business entrepreneurship and economic empowerment with people of color, if we can take that and scale it in a way that really makes a difference, those things will have a powerful impact to our national economy. And so the supportive investment from institutional partners like Bank of America allows us to be able to do

that work that we truly believe in.

SHARTIA BRANTLEY: Speaking of these relationships, can you expand a little bit about Morgan Stanley and the grant that allowed you to exit TARP?

MICHAEL T. PUGH: Yes, Morgan Stanley, again being another example of just a fantastic partner for Carver. Carver was one of the few institutions left – I believe there might be only one other bank left and a couple of credit unions that have outstanding TARP or ownership stake left with the U.S. Treasury. So we have been working for some time on this initiative to exit the U.S. Treasury's ownership stake of Carver which was about 62% ownership stake of the company.

The challenge is that when you've got this ownership stake held by the federal government as you're trying to attract other investors, there's always a bit of a concern on the back end of, you know, what does that ownership stake mean? And how will it impact the future state of the business? The U.S. Treasury was exceptionally supportive with us in working towards the exit. And because of the Morgan Stanley grant we were able to have a successful exit of the U.S. Treasury.

The next step for us is now being able to really double down and focus on the business at hand which is growing through adding value to small business owners and again

within our communities. And, you know, frankly because of these institutional partners we're not in a much more viable position to do so.

SHARTIA BRANTLEY: That's great to hear. So earlier you talked about how the number of Black-managed banks, Black-owned banks have declined over the past decade. But, you know, digital banking continues to grow, right? There are organizations such as CapWay. What do we need to do to support maybe more digital banking if the cost of operating brick and mortar institutions is a barrier?

MICHAEL T. PUGH: Yes, so I think there's at least a couple of things. If you're talking about within Black-owned, Black-managed financial institutions or the broader segment of minority deposit institutions, the majority of our banks in this country, you know, are less than a billion dollars in asset size. Many of those institutions don't have the financial wherewithal to advance their technology in that space. And so what ends up happening is that the much larger financial institutions, because they have the capital to do so, they certainly make the radar. Yet there's great work being done by the community bank sector.

So I think where there's at least two major opportunities, one is for large technology firms to partner with community banks like Carver, to think about their technology and assess ways to re-imagine that technology, improve it and take it to scale in a very

different way. And I think the other thing is capital. Capital again remains king or queen as you think about the ability to support businesses. We happen to be a publicly-traded company so, you know, anyone that has a real interest in supporting us has the ability to go to market and use their, you know, to make a purchase. But for those that aren't publicly traded, you know, again there's still that tremendous opportunity of working within the management teams and the board of directors to come up with a solution that may allow them to have access to more capital.

Through doing these two things, technical assistance and partnerships with large firms, again that have the wherewithal to help with technology and access to capital, many of these community banks – again like us that are doing good and really effecting change – they can do more. And this would be a great way for others to be a part of it.

SHARTIA BRANTLEY: Since, you know, we are experiencing this heightened awareness, do you anticipate more equity stakes being taken at your organization or more partnering with some of the other Black-managed or Black-owned banks in the near future?

MICHAEL T. PUGH: From your mouth to God's ears, let's hope so. And what I would say is that we certainly have had a number of conversations with organizations. We've talked to firms like Uber, Google. We've talked to firms like the Hearst Corporation, and

then we've talked to financial institutions. I think the powerful thing about all of these conversations that are now taking place is that organizations are asking the important questions about how do we get involved? How do we support institutions like Carver that are really making a difference? And so, you know, we expect to see more great things that are coming out. There certainly seems to be frequent press releases about organizations getting involved.

One interesting statistic that I read and found is that 76% of Gen Z's somewhat agree or strongly agree that large firms must take a stance and get involved in helping towards racial equality. And so if you think about part of the paradigm shift that's happening today, we have a generation of people that are out there with a voice and demanding change. We have boards of directors that are saying as part of their key metrics for success of organizations, they want to add diversity and inclusion. They want to think about what racial equality should look like within their firms.

And so these things that are all happening at this important moment in time, I think, will certainly create significant change and opportunity for institutions like Carver to do the work that we've been passionate about for 72 years.

SHARTIA BRANTLEY: Can we talk a little bit about Netflix? They announced \$100 million initiative to work with Black banks. Is Carver a part of this program or will be a

part of this program?

MICHAEL T. PUGH: Yes. So we've been in contact with the folks there at Netflix. I know that they are working feverishly to get the program up and launched. And I hope that we'll be able to come back to you sometime in the future and report great results from it. But it is an example of what we are talking about which is, you know, large institutions really again deciding that as part of their metric for success is to get involved and frankly try to make an impact. We expect to be in the front of the line as Netflix develops this initiative and certainly then try to make a difference if we're part of the consideration set.

SHARTIA BRANTLEY: As we begin to wrap up, it's November. November has been a week with the election. What is your outlook for 2021 in terms of the economy, in terms of your customers, and in terms of Carver?

MICHAEL T. PUGH: Sure. So it's a great question. I think full disclosure, the first thing to say, I am not an economist. But as a 30-year banking veteran, I can certainly say that I've been around long enough to see some trends repeat themselves. And this will be an interesting time for us over the next couple of years. I think what we – as a collective group of people across the country – have to continue to think about is that the pandemic will certainly have ricochet and residual effects on the mental health and wellness for folks across the country. So we have to continue to think about ways to

support programs and initiatives to ensure that people remain healthy and whole during this very difficult time.

We have, many of us have been impacted and have had losses within our families or friends or at this point know someone that contracted the virus. The mental health component of navigating through this paradigm shift with social distancing, hearing about losses will be an important factor there. I think from a consumer standpoint, and certainly as you think about the consumer index and the unemployment rate again being, you know, 7.9%, it's still a relatively high number, and there are many everyday Americans that are thinking about how do I survive? How do I pay my bills and navigate through this difficult time? And especially within the African American and the Latino community where we started, 41% of the businesses may not be able to reopen or have already closed. We are working in a zero-interest rate environment or near zero interest rate environment.

And so the next couple of years, in short, will just continue to be a really tough time. I think the work that institutions like Carver and certainly, you know, my passion and commitment is to make sure that we are there, we are connecting our community with the resources, the tools needed to do the very best to manage through this time and that we are doing our part in terms of providing access to capital for women and minority business entrepreneurs as well. Certainly more to come.

SHARTIA BRANTLEY: Got it. I always like to leave with this question. Is there something you would like to leave with the audience that we didn't get a chance to discuss?

MICHAEL T. PUGH: Sure. I think the key thing is that, as you're thinking about your banking choices and opportunities, continue to look at if the institution is in fact making an impact. What's their community reinvestment rating? And then the second is, thinking about your choices and solutions in terms of how to get involved. Is there an opportunity to support a small business through capital in some way so that that business can sustain and grow? And third, we talked about this technology component that will remain very important over the next couple of years as we make a shift. So, for large firms looking at ways to be able to leverage their intelligence and their talent to support small business growth engine. We know the bottom line is if you support small businesses you ultimately will help the nation to improve and thrive.

SHARTIA BRANTLEY: Well, what a great note to end on. I just want to say thank you so much for taking time out to speak with me and to share all the great work that you're doing with all of us. Thank you.

MICHAEL T. PUGH: Truly a pleasure. Thank you.

VICE CHAIRMAN MICHAEL O'NEILL: Very interesting, very informative discussion. Thanks to both of you. I really enjoyed the conversation. Now time for a quick commercial here. At 2:30, we've got Larry Summers and Glenn Hubbard talking about the implications of the election. I hope they are good at improv. And that will be followed by later this month, Dana Shuler, Senior Director of Player Affairs and Development, NFL Players Association. And she'll be joined by a nine-year NFL veteran and former New York Jet, Erik Coleman. That should be quite interesting. James Gorman, Chief Executive Officer of Morgan Stanley. Mark Zandi, Chief Economist at Moody's Analytics, Jay Clayton, Chairman, U.S. Securities and Exchange Commission, and LL Cool J, Chief Executive of Rock the Bells. As you can see, a robust fall schedule. I hope you will tune in and as always we welcome any guests that you may want to bring along. Thank you very much.