

Discussion, Session 7: Where Do We Go From Here?

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Bruce Katz

Thanks Michael, and this is obviously the wrap up panel, and we'll try to distill and discern the lessons from the past day. And what we have is a fairly diverse panel with different perspectives and different experiences. Una Okonkwo Osili, to my left, and then I'll go down the line, who participated yesterday, an economist at Indiana University-Purdue University at Indianapolis. John Weicher, and as Secretary Cisneros pointed out last night, the Assistant Secretary for Housing and the FHA Commissioner at the HUD, which in many respects is really the principle position at the department. David Marzahl, who is the Executive Director of the Center for Economic Progress, and then Jere Boyle, here with the Federal Reserve Bank of Chicago. We'll have moderated discussions and a series of questions, we'll try to even maybe even have a little back and forth. First question is obviously the most obvious one: what do you all take from the session? What are the key lessons? Are there you know, certain policy solutions that seem to jump out over the course of the past day, or are a lot of the lessons that we draw really more at the practical level, either for financial institutions, community practitioners and so forth, Una I'll start with you.

Una Okonkwo Osili

Well, what I learned today is that the reality is extremely complex, and, actually from yesterday as well, academic researchers are often criticized for trying to simplify the world or make it look perhaps less complex than it really is. But I think when we're studying this topic and dealing with the sorts of issues that are on the table, or have been over the past two days, I would say that we would have to recognize the heritage of the immigrant population. As some of the points that have been raised, I'll go through these fairly quickly. We have differences in legal status, location and settlement, Audrey's work highlights this very nicely, return migration plans, family networks, languages, a speaker yesterday commented that even within the Chinese population

there were differences in languages as well, duration of stay, recent versus established. I know in the Nigerian community there is an expression for people who just arrived, and I'm sure it's true for a lot of other immigrant groups, and Lindsay just spoke about skilled versus unskilled migrants. I think researchers, practitioners, and policy makers need to recognize these differences.

And then a large point that was raised yesterday and today, as well, is that home country institutions and home country's size matter a great deal. Anna and I have done some work on this, you heard about that yesterday, but even in conversations with some of you I've been aware of just how much the home countries matter. I spoke to a Federal Reserve Bank economist from Minneapolis and he highlighted some of the challenges of working with the Somali population there, where Islamic banking is a new way of thinking about how we proceed with this population. When you're dealing with Hmong refugees versus Vietnamese versus immigrants from Latin American or Africa or Eastern Europe I think you need to recognize, we need to recognize, that these immigrants bring different attitudes, knowledge and this idea of trust in financial institutions. How are financial institutions responding to this? I think a lot of the innovations that we've heard about highlight that you need, perhaps, or we need, different strategies, and different strategies are evolving to deal with these complex problems. This issue of trust kept coming up yesterday and today, and the idea that perhaps institutions can somehow get or engage in a relationship where immigrants can transfer the trust in, say, the school environment to the financial institution. Take Mitchell Bank for example, James Maloney spoke about how they were able to build trust with immigrant populations by establishing a bank branch at a school.

We also heard about the one other example that I think comes up repeatedly in a lot of the talks was that relationships matter. How do we build these relationships for small banks? This seems to be working quite well, but will it work for larger banks? I actually loved hearing about American Metro Bank and how informal relationships with customers were then integrated into the formal way that the bank operated. But again the question is: how would this work for a larger financial institution or would it work at all? Is this a good model for larger banks? And finally I started thinking about where we go from here, and, as a researcher, I think it's important to make sure that our models, our research, is informed by this heterogeneity, that we recognize how complex the reality is in developing models and testing these models.

And then finally I think we also need better data, sometimes, to capture this complex reality, and perhaps we need different types of research methods that actually will allow us to answer the types of questions and deal with the types of issues that seem to be on the table over the past two days. So I'll stop there.

Bruce Katz

That's great. John? Big lessons.

John Weicher

Thanks Bruce. I'm necessarily coming at this from the housing standpoint and at HUD FHA we insure about 6 million home mortgages, a little less than a trillion dollars worth of the full faith and credit of the government of the United States, and about 80% of our homebuyers are first time homebuyers while 40% are minorities. Now we do not track immigrant status and we do not track citizenship, but we know, for instance, that 105,000 of our first time buyers last year were Hispanic Americans and 35,000 were Asian Americans. We pay attention to this because I work for a President who has announced a goal of five and a half million more minority homeowners by the end of the decade and who has people who track it and ask us how we're doing.

I focused a lot on how one provides information, about how one communicates with the people that might want to become homeowners, and I think that was a lesson I took away both from the homeownership papers and from some of the rest of the discussion. We have a website now in Spanish, Espanol.hud.gov, and we've been translating our literature, and this certainly goes back to when Bruce was at HUD, into Spanish on home buying and on the settlement process and on avoiding foreclosure. Just yesterday the Inter-Agency Task Force on Fair Lending announced a brochure on re-financing in Spanish.

Beyond that, the importance of counseling; we at HUD have doubled the budget that we provide to local counseling agencies in this administration from \$20 million up to \$40 million; we've asked Congress for \$45 million this year. We help about 550 counseling agencies nationally; we don't provide all of their money by any means; we provide a little less than half and we don't provide all the funding for anyone. With that money, we know that they served about 1.2 million families last year, not a lot of money per individual family, but we know it works. We know it works for FHA. Our data shows us that FHA borrowers who receive counseling are about 5% less likely to default on their mortgage than those who do not, and that's cost effective for us. Now our counseling money is not tied to FHA, but we know that counseling works for us, and we know from research by Freddie Mac and by academic researchers that it works in other parts of the market as well. The main impact of counseling is on reducing the default rates for Hispanic Americans, African Americans and Asian Americans; it doesn't particularly work for whites and it doesn't particularly work for Native Americans.

We also worry about keeping people in their homes, and I didn't hear much about that at the conference, but we do. We have a number of rules to prohibit predatory lending practices and FHA loans, which is all we can regulate. Our loans and our lenders, and relatively few of our lenders are commercial banks or other financial institutions, they're mortgage brokers or mortgage bankers, have an anti-flipping rule

that we put into place last year, and we've been tightening standards on appraisers and home inspectors. We're working to tighten standards on lenders and loan correspondence, and we have a rule that we're developing to prohibit the use of FHA or HUD in the title of an organization, a private organization that is, in the lending business. We get about three complaints a month where somebody has been contacted by an organization, a private lender or private organization, with the words FHA or HUD in the title.

We look at the performance of our lenders; we track their early defaults, a default on an FHA loan in the first couple of years is likely to mean there was something wrong with the loan. We identify those lenders with high early default rates, which we define as being double the rate in their local market. We ask them to explain why; if they have an explanation, that's fine, and if not, we sanction them and remove them from the program for a minimum of 6 months. We don't sanction many, about 40 to 50 a year. We have 22,000 lenders, but we have the attention of all of those 22,000 of those lenders and the attention of their trade associations because we are sanctioning 40-50 a year. And we started doing the same thing with appraisers on the same basis; again, we've been sanctioning about 100 a year for the last two years, and we're getting their attention and the attention of their industry.

I'm thinking about where do we go from here? Let me go back for a second. A century ago, a century and three weeks ago to be precise, my father was born about 4 miles west of here. His parents were immigrants; they came from what was nominally the Kingdom of Bohemia but what was actually a province of the Austro-Hungarian Empire, now the Czech Republic. Like Governor Bernanke, they didn't think Austria or Hungary was that congenial, but they didn't need World War I to persuade them to leave the country. They settled in a neighborhood that Roberto Suro mentioned yesterday, Pilsen, a name for the second largest city in the Czech Republic, the city where beer was invented. They didn't speak English; they spoke Czech and they were forced to learn German. They came here and they settled in that neighborhood and in the course of 15 years or so they got the hang of it. They bought a home, moved to another Czech neighborhood farther west, South Lawndale, bought another home, raised two kids who were financially literate, successful and homeowners. My grandfather had three grandchildren, three grandsons all of whom were homeowners and not yet, the next generation hasn't gotten around to it yet, but we think they will. So I draw a lesson, I don't draw the lesson that you need to wait a century or a generation for results, but I draw the lesson that if you make the support available and you reach out to the people who need help and you reach out to them in the communities in which they choose to live and if you go after those who prey on immigrants and minorities and you keep an eye on the progress you're making, we'll be doing okay.

David Marzahl

Well I'm actually following up on the remarks just made now. I'm born in St. Louis and I thought St. Louis was where all beer was made.

John Weicher

It was invented.

David Marzahl

I know, I'm giving you a hard time. I think that probably the most profound takeaway from this conference from my end, and not surprisingly, is that really in terms of potential success in this field to reaching out to immigrant communities, it has to be a blending of high tech and soft touch. That high tech will involve products such as ATM's and debit cards that can be used on different sides of the borders for speedy and low cost remittances. Remittance costs are going down dramatically. We heard yesterday they may not go down much further because whether they've been, you know, at a certain point maybe business banks don't want to be underwriting them as a loss leader. Certainly as was just mentioned in terms of HUD, we heard it yesterday from Harris Bank increasing use of bilingual websites. I'd be interested actually, we didn't hear about it, what's the actual use of those websites? I mean sometimes the website for a bank or financial institution is just for information purposes; other times, it's the full range of transactions. And then very importantly, in terms of high tech there is the technology side, but there are also the tools, and one of the most critical tools that we've heard about, and I'll take a moment to talk about how it relates to the role of government determining what identity documents are appropriate to open up bank accounts. Nina Olson probably gave, I have known Nina for many years now, probably one of the more direct and passionate speeches around immigrant access to financial institutions and the role of the IRS yesterday. And absolutely critical is the Individual Taxpayer Identification Number, that number is now being used differently than was originally intended when it was established in 1996; and beneath the radar screen there actually has been an enormous amount of controversy within government about the ITIN and what it can be used for. And there have been dramatic changes in the processing of ITIN's, and I think its essential for community groups, financial institutions and others to realize that government does play a role, establishes certain tools. Those tools can also be taken away, and there are some real risks out there right now with respect to the ITIN and its future.

Opposite the high tech side is the soft touch aspect. And again, Una and John have talked a little bit about it, we heard a lot about it in the last few days: clearly, absolutely paramount are bilingual services. Relationships, again we have heard, we've heard it from virtually everyone. And I think one thing clearly important in terms of soft touch is a different approach to determining credit worthiness using flexible protocols. Again, what Yman Vien from American Metro Bank just talked about yesterday, family

structure and the fact that, you know, why is it in terms of financing a business that they weren't taking into account the fact that there were seven family members working; and you look at that gross pool of income, but maybe because they're an extended family, they wouldn't be counted as part of the underwriting criteria. I think, and we've heard it, clearly cash transactions still count very much to the immigrant community despite their adoption of high tech.

And then and I'll talk about it more, I think, when we have one of the next questions, community intermediaries are absolutely critical whether they are community development corporations, community based organizations, faith based organizations or credit unions. They really are the ones who create the framework for moving from the personal relationships that a banker may establish with someone to creating more of a structure and to connecting the dots. And, I think really, there's been good evidence of that. I mean, you look at the presentation yesterday around the Latino credit union in North Carolina; now they're losing market, but they established themselves. They looked at, you know, the gateway communities they were in and they provided a range of services that the mainstream banks were not willing to provide. If they weren't a credit union, if they hadn't established themselves, where would those people have gone? They would have stayed with many of the predatory lenders, without question. So I think I can't underscore enough the role of community intermediaries.

Jeremiah Boyle

I guess my lesson learned from this conference is really that the more things change the more they stay the same. Or as my Irish grandmother used to say, twas ever thus. For all of the strategies and the technologies and the programs that have been talked about, what it really comes down to if you're going to be a dent in this growing and important market, its going to be about human interaction, and that has always been the case. I'm always reminded in conferences of It's A Wonderful Life, which has these two you know, wide ranging stereotypes. On the one hand Henry Potter, who is the President of "the" bank, a bank that doesn't even have a name; this is just what bankers are and how they are perceived. And he complains about the Bailey Building and Loan extending a loan to Ernie Bishop, the cab driver, whom he knows has "X" amount of income, and why are we extending him a loan, because in the end, what does that get you, he says, but a lazy discontented rabble. And on the other hand is George Bailey who makes this compelling argument to his Board of Directors, which really represents the Bedford Park Chamber of Commerce, and says, wait a minute you all understand this better than I do, why should we have them save until they're 60 years old to buy their first home. Doesn't this make them better citizens, doesn't this make them better customers? And in the end that is true, and the immigrant involved in that is a guy named Giuseppe Martini who George Bailey, the banker, actually helps get in the car with his herd of children and a goat, and go from what had been Potters Field to Bailey Park, where he now owns his own home. And it's a joyous community wide occasion. And when George Bailey ends up getting socked by the husband of the teacher, it happens in Martini's Bar. So we can see the progression, of this immigrant getting his first home and then becoming an entrepreneur that we've talked about so

many times. All of it was about the human interaction, of George Bailey, with the people that he was serving; the same is true now you know.

The reasons that things work at Mitchell Bank is because the Chairman of the bank fills the entire organization with the idea that if there's an issue, don't let this person walk away, let's find a way to serve this person. And some of the other examples here have gone beyond welcoming people into mainstream financial services to saying, how can we use this point of contact as a way of opening up all of the benefits of citizenship? Can we help the person in front of us get documented if they are not documented? If that's what's impeding them here at the bank, it's impeding their progress elsewhere. How can we maybe make ourselves a point that opens up a lot of additional benefits? In the end its going to be that kind of person to person contact and service that will make the difference in bringing people into the financial mainstream.

Bruce Katz

Let me try to build from your comments because I think there's some common themes here, and, I think, if the central question is how do we enhance the access of immigrants to the financial mainstream, so much of this conference has really been about market innovation and market practice and the recognition by major financial institutions as well as specialized financial institutions that there's money to be made here. And then the question becomes, as David you were saying, how do you combine the high tech with the soft touch and in a sort of informal learning way? Have for-profit institutions basically sort of evolved the field? So given that what we're seeing is that the market is really taking off so to speak, what then is the prime role of government and the voluntary non-profit sector? To basically support and enhance, further promote, you know, what seems to be sort of a market response? And are there again, some mentioned community intermediaries, are there really central roles for government and the non-profit sector to play or are we over estimating the market response and, you know, we may be seeing really just the best of the best here and we need to be stepping back for a second? Any thoughts on this?

John Weicher

A couple of things; one is the most heartening thing I heard at the conference , saw at the conference, was Professor Kossoudji's paper yesterday showing a very slight difference in homeownership rates between Native-born Americans and immigrants who are citizens. I think that from my standpoint, is a very positive picture, and something I had not realized. I think that tells us that there is a real market response going on here and there is a real phenomenon and the time is on our side.

Beyond that, I think the government's role is to try to be a facilitator, to try to make information available on a public good basis, and to try to provide support to local entities that are prepared to work one on one. Last year I went out to Denver for a little ceremony on behalf of the HUD to congratulate about a dozen families who had bought

homes with FHA mortgages, all immigrants, mostly Hispanic, but two or three Russians. And in nearly every case, when the family got up to say thank you, the parents didn't say thank you; the school aged kids got up and said thank you, and said it in very good colloquial English. So I think that kind of local connection, which is very hard to do when you're sitting in Washington, as you know, but it can be done and what you have to do is keep working at it.

Bruce Katz

Any other thoughts?

David Marzahl

I mean its heartening to hear the increase in investment that HUD is making in homeownership counseling. I have to be honest and say that I don't see other equivalent investments being made by the federal government as a whole in financial education. There are some very interesting things developing. There is now, I think, an umbrella entity that brings together many of the federal regulatory agencies, but what will come of that we'll see. The First Accounts program which was conceived under President Clinton and came to fruition under President Bush actually is coming to an end this Fall, unless funding comes up again. So we've been, as an organization, very fortunate to be part of First Accounts, but it goes beyond us organizationally. It's the whole concept. Which, I think, to be honest, there are members of Congress who are fundamentally hostile to the idea that government should invest public dollars to help people access private financial accounts, including key members of committees. So I think there's some education of members of Congress to be done potentially by some of our friends in government of what the ultimate value of that is: reduce foreclosures, reduce defaults.

And again, you look at the raw numbers in terms of the huge increase in predatory financial products being peddled in low income communities, and it's beyond alarming. I mean, its just sucking the money out of poor communities. So I think from the non-profit side, there are groups who, at the community level, will be the innovators, they will try new approaches. The credit unions, some of the CDC's, they will maybe develop new products or new approaches.

I do want to follow up with what Una mentioned, I think research is very important. If government and the private sector is going to adopt something, then non-profits need to make sure they build an evaluation component into it. I've been pleased to be a part of a program with Financial Links for Low Income People, and Dory Rand, who oversees the program, is here. She built an evaluation component into the financial education program, so you can then document to people what the impact is, and the truth of the matter is, the impact is positive. People's financial behaviors change if you have sustained, systematic financial education.

But also, and again I want to raise, that here there are community groups who maybe aren't the implementors and the innovators, but who are the advocates, who build, who create accountability, who make sure that, even though ultimately, we heard it over and over again, banks shouldn't be doing things because of CRA, they should do it because of the market. CRA does have its impact and there are major mergers underway right now where CRA is being used as part of those mergers to make sure that there are good agreements for the communities impacted. So I think it's a lot of players, it's a lot of pieces coming together, but I really think community and non-profit groups play an absolutely critical role and need to be very creative in working with government.

Jeremiah Boyle

One of the things that I would say, in sort of keeping with Governor Edgar's remarks yesterday, to put it in historical context: the fact that we are focused on this market now really historically is an extension of what the Community Reinvestment Act has achieved. This is about identifying markets that are underserved and serving them better. Now if you're going to serve them particularly well, you're not going to do it based on a regulatory framework, it's going to be a viable business strategy for your bank. However, if you are doing that, and you are serving a low to moderate income community by so doing, then the Community Reinvestment Act and the examiners for community reinvestment will smile upon that.

Bruce Katz

John, did you have a follow-up?

John Weicher

Yes, just the commission David mentioned, the Commission on Financial Literacy and Education, I serve on that on behalf of Secretary Jackson, and it includes program agencies as well as regulatory agencies; and we have begun working on an inter-agency website and inter-agency outreach in other ways as well. That commission was created in December and had their first meeting in January. Just earlier this week the Inner-Agency Task Force on Fair Lending published a booklet in Spanish, the English title of which is "Putting Your Home on the Loan Line is Risky Business." That making information available is a standard part of what I think all of us are doing, and there are inner agency initiatives to provide a variety of support, not simply support on financial literacy or access, but other kinds of support in the Colonias. We provide counseling support in the Colonias and we're providing efforts to straighten out property titles along the border in the four states along the border. And it takes time and it takes effort and sometimes the progress comes slower than you would like, but there is an effort going on there.

Bruce Katz

It just strikes me, again building on your comments, that when we stress the importance of these community intermediaries, at this point in time you know, particularly at the national level, what is essentially supported is a production system for affordable housing through low income housing tax credits. I mean that's how many CDC's essentially survive from year-to-year on a sort of fee based production. When we get into a lot of the work that was talked about on some of the panels today and yesterday, the Humboldt Park Community Development Corporation for example, the kind of work they were doing really is based on soft money, you know. It's philanthropic money, whether from non-profit foundations or for-profit foundations and so forth, and it's less regular in many respects. So I think one of the challenges that might be coming up from these comments today is that the financial foundation of the community sector, to play a role in this bridging role, is not as secure, I suppose, as the production side of affordable housing. I don't know how you resolve that. I mean, any quick comments to that? There's actually a comment from the floor on this.