

Where Do We Go From Here?

Bruce Katz, Director, Center on Urban and Metropolitan Policy, Brookings Institution

Una Okonkwo Osili, Assistant Professor of Economics at Indiana University-Purdue University at Indianapolis

John C. Weicher, Assistant Secretary for Housing/Federal Housing Commissioner, U.S. Department of Housing and Urban Development

David Marzahl, Executive Director of the Center for Economic Progress, Chicago, Illinois

Jeremiah Boyle, Community Affairs Program Director for the State of Wisconsin at the Federal Reserve Bank of Chicago

Session Seven

Financial Access for Immigrants: Learning from Diverse Perspectives

The final panel of the conference was designed to distill and discern the lessons of the conference in a less formal question and answer format. Bruce Katz, vice president and senior fellow at the Brookings Institution and founding director of the Brookings Institution Center on Urban and Metropolitan Policy, moderated the panel. Panelists included Una Okonkwo Osili, assistant professor of economics at Indiana University-Purdue University at Indianapolis, and associate faculty at the Center on Philanthropy at Indiana University; John C. Weicher, assistant secretary for housing/federal housing commissioner at the U.S. Department of Housing and Urban Development; David Marzahl, executive director of the Center for Economic Progress in Chicago, Illinois; and Jeremiah Boyle, community affairs program director for the state of Wisconsin at the Federal Reserve Bank of Chicago.

Panelists were asked to address the following questions:

- What do you all take from the sessions?
- What are the key lessons?
- Can we draw policy solutions or lessons at the practical level for financial institutions, community practitioners, and researchers?

Osili emphasized the importance of the heterogeneity among the immigrant populations in research. Legal status, location and settlement, family networks, return migration plans, languages and dialects, duration of stay and skilled versus unskilled labor are key differences between and among different immigrant groups.

Early research indicates that the size of an immigrant's home country and their experience with financial institutions in the country of origin also influence financial decisions. Highlighting research involving Somali, Hmong, Vietnamese, Latin American, African and Eastern European populations, Osili emphasized that different populations bring different attitudes, trust and knowledge

levels about financial institutions. These differences require both different business strategies and different policy prescriptions to deal with the complexities of financial access for immigrants. Better data and new models need to be developed that capture these complex realities.

Relationship building and trust were key themes throughout the conference. Mitchell Bank's strategy of bringing families into the bank through relationships established at the high school and American Metro Bank's cultivation of informal relationships were highlighted as examples. As small community bank strategies, these examples raise the question of what larger institutions should do to address immigrant populations in the era of mergers, acquisitions, and huge, often multinational institutions.

Weicher emphasized the lessons learned with regard to housing and immigrant populations. HUD/FHA insures about 6 million home mortgages, a little less \$500 million worth of mortgage insurance. "About 80 percent of our homebuyers are first-time home buyers and 40 percent are minorities. 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."

Weicher noted that many speakers and papers focused on how agencies and institutions communicate with people that might want to achieve homeownership. He highlighted projects that both HUD/FHA and the Interagency Fair Lending Task Force undertake to provide multilingual information on home buying, the settlement process, and avoiding foreclosure.

Home purchase counseling (as part of a comprehensive package of financial education topics) is another important component emphasized during the conference that is a HUD priority. HUD supports 550 counseling agencies that served 1.2 million families in 2003. FHA data shows

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that “FHA borrowers who receive counseling are about 5 percent less likely to default on their mortgage than those who do not, and that’s cost effective 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,” Weicher said. “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 – doesn’t work particularly for Native Americans,” he added.

HUD/FHA also has a number of rules prohibiting predatory lending practices with FHA loans, an anti-flipping¹ rule, and standards for appraisers, home inspectors and lenders’ loan correspondents, all of which are attempts to help people stay in their homes.

“My grandfather raised two kids who were financially literate, successful, and homeowners. He had three grandchildren, three grandsons, all of whom were homeowners. The next generation hasn’t gotten around to it yet, but we think they will. So I draw the lesson that, while you don’t need to wait a century or a generation for results, 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.”

Marzahl’s key takeaway from the conference was the need to blend technology with personal relationships and trust building. High-tech, according to Marzahl, includes ATMs with transnational debit cards, speedy and low cost remittances, and bilingual Web sites.

Marzahl also noted the importance of the regulatory environment to determine what identity documents can be used to access the technology deployed by banks. “Absolutely critical is the individual taxpayer identification number (ITIN).” Noting some emerging controversies over the use of ITINs to access financial services, Marzahl said,

“I think it is incumbent upon community groups, financial institutions and others to realize that government does play a role in establishing certain tools. Those tools can also be taken away. There are some real risks out there right now with respect to the ITIN and its future.”

Bilingual services and relationship building are obvious and important elements of financial access for immigrants. In addition, more flexible protocols for establishing the creditworthiness of immigrant populations also help. Marzahl referred to American Metro Bank CEO Yman Vien’s example of using a pool of gross income from seven working family members to establish the creditworthiness of a family business.

Finally, Marzahl emphasized the critical role of community intermediaries such as community development corporations, faith-based organizations, and credit unions in, “creating the framework for moving from the personal relationship that a banker may establish with someone to creating a structure and connecting the dots.” Pointing to the case study of the North Carolina credit union that is, “...losing market, but they established themselves. They looked at the gateway communities they were in and they provided a range of services that the mainstream banks were not willing to provide. If there 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,” Marzahl said.

Boyle noted that the key lesson was, “If you are going to make a dent in this growing and important market, it’s going to take human interaction, and that has always been the case.”

The same is true now, according to Boyle. The reasons that things work at Mitchell Bank, for example, is because the Chairman of the bank, and staff alike, operate from the standpoint of, “Let’s find a way to serve this person.” “In the end,” Boyle said, “it’s going to be that kind of person-to-person contact and service that will make the difference in bringing people into the financial mainstream.”

The next set of questions focused on the extent to which the private market responds to the needs of immigrant populations and the appropriate roles for nonprofit actors and government agencies in increasing immigrants’ access to mainstream financial services.

Katz noted that the conference highlighted profitable market-based innovations outreach by private institutions. “What then, is the primary role of the government and the nonprofit sector to support, enhance and further promote what seems to be a market response?” Katz asked.

Weicher responded, “The most heartening thing I heard at the conference was Professor Kossoudji’s paper showing a very slight difference in homeownership rates between

native-born Americans and immigrants who are citizens. I think that tells us that there is a real market response going on here and there is a real phenomenon and that time is on our side.” Weicher argued that government’s role should be to facilitate that market response, provide information as a “public good,” and to “provide support to local entities that are prepared to work one on one.”

Marzahl emphasized the unmet funding need for more general, broad-based financial and economic education initiatives. He specifically noted the funding cuts for the First Accounts Program, a program that was designed to help people access private financial accounts. “I think there’s a need for some education of members of Congress,” Marzahl said, “of what the ultimate value of that is: reduced foreclosures, reduced 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, it’s beyond alarming, it’s just sucking the money out of poor communities.”

Marzahl also believes that nonprofit entities will continue to be innovators at the community level, developing new products and new approaches. But if government and the private sector are going to adopt something, then nonprofits need to make sure they build an evaluation component into it. He highlighted the Financial Links for Low Income People² (FLLIP) as an example of a program with an evaluation component that demonstrates its positive impact. “People’s financial behaviors change if you have sustained, systematic financial education.” Community groups are also important advocates, building and creating accountability. “It’s a lot of players, it’s a lot of pieces coming together, but I really think community and not-for-profit groups play an absolutely critical role and need to be very creative in working with government.”

Katz discussed community development corporations’ heavy dependence on fee-based affordable housing production. Funding and financial support for the kinds of programs and initiatives discussed at this conference comes mostly from philanthropic support and is less secure than funding for affordable housing production. The panelists were asked for comments on the funding issue.

An audience member suggested that we might need new organizations, arguing that those community development corporations that have engaged in affordable housing production may not be particularly responsive to demographic changes in their neighborhoods.

The final set of questions for the panel focused on how success is measured in terms of greater access to financial services to immigrants. “I’m really interested in how you would define success, and prospectively how you would benchmark to measure the progress,” Katz explained.

Osili stated that financial participation should be linked to larger goals such as wage assimilation, income, wealth accumulation, small business ownership, investment patterns, ultimately socioeconomic mobility, job creation, and community development. “We even heard about

“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. If that strategy also serves a low- or moderate-income community, then the Community Reinvestment Act will smile upon that.”

Jeremiah Boyle

reduction in crime in some communities when banks were available,” Osili said, “so I think financial access needs to be put in a bigger context which is the overall socioeconomic progress of immigrants.”

Osili also emphasized the need to monitor and measure sustained homeownership and sustained financial participation. “I think that dynamic picture needs to be part of measuring success,” she said, “not just at a point in time but over time – not just getting people a bank account, but making sure they have access to the full range of financial services.”

Marzahl offered a visual benchmark, “When I can drive through some of the neighborhoods in Chicago, into Englewood, Back Of The Yards, and see branches of all of the banks that I find on the near north side and in the north suburbs.... You go to a particular street corner and there on a strip mall is a Payday Lender next to a Jackson Hewitt, next to a Rent-A-Center, next to some other predatory lender. To me, success would be when – not when they are gone – but when there’s rough equivalency. Now we may never get there, but right now the contrast is so stark.”

Boyle referred again to the FLLIP Coalition’s report as an excellent example of measuring success. What these efforts are trying to accomplish are: 1) make the unbanked customers and; 2) make customers better customers.

“When you’re making that argument to the bank, what better way to do it than specifically, ‘26 percent of

participants that did not previously have an account opened checking and savings accounts for the first time.' Compare that to a direct marketing campaign," Boyle said, "where you expect 3 percent response. That's a very compelling argument."

Boyle indicated that one of the things that the Center for the Study of Financial Access for Immigrants is set up to do is to bridge the gap between the programs and the need for effective evaluation of those programs.

"My idea," Weicher said, "would be that, whatever measure of financial access you're using – distribution of wealth, distribution of income – when you do the analysis, all the coefficients on race and ethnicity are insignificant. When we get there, we've solved the problem."

Katz offered a final observation: "I am really struck by the richness of the conversation and how much this field has moved along in such a really small period of time. To go back in time ten years even, is to be in another world compared to the conversation that is going on in this room. So there is an enormous amount of affirmative momentum and people should take an enormous amount of pride in that."

Michael V. Berry and Jeremiah Boyle summarized the conference sessions.

Michael V. Berry is a senior research analyst and manager of the Emerging Consumer and Compliance Issues unit of the Federal Reserve Bank of Chicago's Consumer and Community Affairs division. Mr. Berry is also the managing editor of, and a frequent contributor to, the Federal Reserve Bank of Chicago's Profitwise News and Views publication. Mr. Berry holds a B.A. in political science from Susquehanna University in Pennsylvania and an M.B.A. from DePaul University.

Jeremiah P. Boyle is the Wisconsin community affairs program director for the Federal Reserve Bank of Chicago's Consumer and Community Affairs division. Mr. Boyle provides technical assistance to financial institutions and community groups to promote community and economic development. Mr. Boyle holds an M.B.A. from North Park University, a Master of Urban and Regional Planning degree and a B.A. in political science from the University of Illinois at Urbana-Champaign.

Notes

1 Flipping is the common term for the practice of a lender-initiated refinancing of a mortgage within a relatively short period after its inception, where the new loan usually has less favorable borrower terms than the loan refinanced. For a discussion of common predatory lending practices see "MCAP's Continuing Role in Ensuring Fairness in Mortgage Lending," at www.chicagofed.org/publications/profitwise/2000/pwJan00.pdf.

2 For a discussion of Financial Links for Low Income People and its financial education efforts, see www.chicagofed.org/community_development/spring_2003_profitwise_news_and_views_fllip.cfm.