

# Profitwise

## News and Views

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June 2004

# Recent Immigration Trends in Southeast Michigan



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## Corrections

1. Due to several print errors in the previously released June 2004 *Profitwise News and Views*, we are reissuing the June edition.

2. The May 2004 special edition of *Profitwise News and Views* failed to attribute foreclosure data presented on pages 4 (summary of presentation by City of Chicago Housing Commissioner John G. Markowski) and 6 (graph) to the National Training and Information Center.

## Profitwise News and Views

*Profitwise News and Views* welcomes articles, suggestions, and letters from bankers, community organizations and others. It is mailed (either electronically or via U.S. mail) at no charge to state member banks, financial holding companies, bank holding companies, government agencies, nonprofit organizations, academics, and community economic development professionals. You may subscribe by writing to:

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## Around the District



### Illinois

#### Collaborative Launches Initiative to Increase Affordable Homeownership in Central Illinois

The faith-based Central Illinois Organizing Project, The National Training and Information Center, Fannie Mae, and National City announced a \$50 million Low Down Payment Home Mortgage (LDPHM) initiative. The mortgage initiative will enable low- and moderate-income homebuyers in central Illinois to purchase a home with as little as \$500, or 1 percent of the home purchase price, from the borrower's own savings.

*For additional information on the program, go to the NTIC Web site at [www.ntic-us.org](http://www.ntic-us.org).*

### Indiana

#### New Study Looks at Effectiveness of Faith-Based Service Providers

The Charitable Choice Research Project released a three-year study on the effectiveness and constitutionality of faith-based initiatives. Funded by the Ford Foundation, the Indiana Family and Social Services Administration, The Joyce Foundation, and the Indiana University Center on Philanthropy, the Charitable Choice Research Project is the first study comparing the efficacy of faith-based and secular providers of social services. The study evaluated programs in Indiana, Massachusetts, and North Carolina.

*For more information, go to [www.urbancenter.iupui.edu](http://www.urbancenter.iupui.edu).*

### Iowa

#### Amenity-Related Housing Development Promotes Rural Community Development

A report recently released by Homeward, Inc., a consortium of eight rural electric cooperatives in north central Iowa, defines amenity-related housing development (ARHD) as a subdivision built in association with a feature that enhances quality of life for its residents. The report suggests that ARHDs may be a tool that will help rural communities address "the convergence of four rural trends: building of homes in multi-acre lots scattered throughout the countryside; increasing pressure to preserve Iowa's agricultural land; declining populations and deteriorating main street areas in small Iowa communities; and sluggish lot sales and home construction in housing subdivisions in rural communities."

*The full report can be found on the Homeward, Inc. Web site at [www.homewardiowa.com](http://www.homewardiowa.com).*

### Michigan

#### SBAExpress Loans Help Michigan Beat National Average

Small business lending under the Small Business Administration's (SBA) 7(a) loan guarantee program was up 64 percent in the quarter that ended December 31, 2003, compared with the same period in 2002. That is double the national increase of 32 percent for the same period. The 7(a) loans are guaranteed by the SBA, and give small businesses that could not qualify for conventional financing access to capital. The dollar volume jumped to \$101.6 million from \$62 million, according to the SBA's 2003 lending report. The number of loans was up 75 percent, to 503 from 287.

A 7(a) loan cannot exceed \$250,000, and carries a guarantee for up to 50 percent of the loan amount, compared with a 75 to 85 percent guarantee on loans of up to \$750,000 with other SBA programs.

*For further information on SBA loan programs, go to [www.sba.gov](http://www.sba.gov).*

### Wisconsin

#### WHEDA Launches Immigrant Lending Pilot Program

The Wisconsin Housing and Economic Development Authority (WHEDA) will, on a trial basis, begin to fund qualifying mortgages by private lending partners serving immigrants with Individual Taxpayer Identification Numbers (ITINs).

With WHEDA funding, homebuyers with ITINs can qualify for below-market, long-term, fixed-rate mortgages. Accepting ITIN numbers as a substitute form of identification for a mortgage is a growing practice among private lenders nationwide. Many immigrants do not have the conventional credit histories and formal identification ordinarily used by lenders in underwriting home mortgages, yet often they have sufficient income to qualify for mortgage financing.

*For more information on the program, see the story from the Business Journal of Milwaukee at [www.milwaukee.bizjournals.com/milwaukee/stories/2004/04/05/story9.html](http://www.milwaukee.bizjournals.com/milwaukee/stories/2004/04/05/story9.html).*

## Introduction

The following data was presented at *An Informed Discussion of Financial Access for Immigrants*, a forum held in Detroit, Michigan on November 14, 2003. The forum was one in a continuing series of dialogues by the Chicago Reserve Bank to study the ways in which immigrants to the United States access mainstream financial services. Mr. Booza's presentation highlights the changing demographic landscape among communities in the Detroit area.



By Jason C. Booza

# Recent Immigration Trends in Southeast Michigan

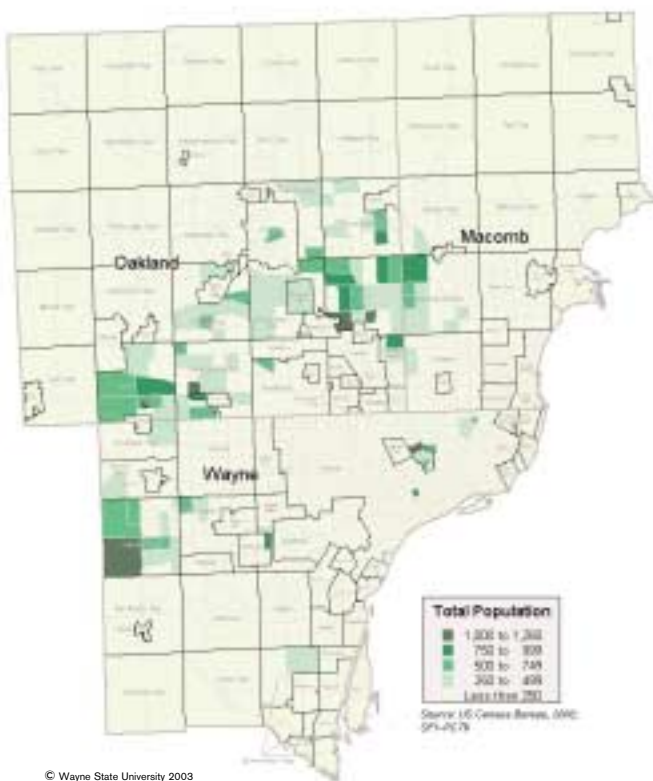
**D**uring most of the twentieth century, southeast Michigan was portrayed in scholarly research and the popular media as black and white. While the region has a rich history of international immigration prior to 1950, the post-war years have focused on the large migration from the American south and the resulting interaction between African Americans and Caucasians in the workplace and community. While Detroit was not a gateway city for immigrants, secondary migration flows continued to add to the first- and second-generation base. The unprecedented immigration flows that the country experienced during the 1990s have also been experienced in metropolitan Detroit, resulting in monumental changes in the diversity structure of the region. This expanded base now serves as a base for continued growth in the future. However, little is known about the groups that will make a significant contribution to the growth of the region. The purpose of this paper is to provide an overview of recent immigration trends in southeast Michigan and the socioeconomic diversity associated with these groups.

## Historical Context

In order to understand the importance of recent immigration trends in southeast Michigan, one must first understand their historical context. Prior to the beginning of the twentieth century, much of Detroit's population consisted of French, German, Dutch, Irish, and Polish immigrants, as well as free Blacks and Native Americans.<sup>1</sup> Immigrants supplied the labor needed for Detroit's fledgling manufacturing industry. Local immigration trends of this time closely represented national trends, which consisted mainly of rural poor from Eastern European countries. Gateway cities like New York and Boston welcomed many of these immigrants to the United States as their search for employment eventually led them to industrial cities like Detroit. Once here, neighborhoods and factories began to organize around ethnic origin. The popular myth of American cities as melting pots is a fallacy.<sup>2</sup> The more accurate picture of Detroit was a mosaic of cultural, linguistic, religious, national, and ethnic groups.

Foreign immigration to the United States fluctuated between World War I, the Great Depression, and World War II. During these periods, Detroit and the United States were reaching their industrial zenith as demands for war supplies increased and the national borders were shut to immigrants. Some immigration to Detroit did occur, and by 1940 the largest ethnic groups in Detroit included Canadians, Poles, Germans, Britons, and Italians. However, foreign immigration was not enough to supply factories with labor, so employers began to look to the American south as the new source of labor.<sup>3</sup> As a result, Blacks, Whites, and Mexicans became the largest source of population growth in Detroit, many of whom were born in the United States. Immigration to the region had slowed since the start of the twentieth century. However, by 2000, Detroit's foreign-born population had increased for the first time in 30 years, and over 44 percent of the region's immigrant population had arrived since 1990. The recent growth of immigrants does not represent the Eastern European patterns of the early 1900s. Instead, the Detroit area began receiving immigrants from Asia, Middle East, and North America. Furthermore, these groups have a higher degree of socioeconomic diversity than earlier immigrants.

### Map 1: Total Asian Population Southeast Michigan Patterns of Diversity



**Table 1: Year of Entry for the Foreign Born Population Living in the Detroit PMSA by Country of Origin, 2000**

Source: US Census Bureau, 2000 PUMS\* 5%

Rank	Country	Total Population	Arrival 1990 to 2000	
			Total	Percent
1	Mexico	26,143	16,687	63.8%
2	Iraq	30,649	16,276	53.1%
3	India	24,810	14,796	59.6%
4	Lebanon	16,100	7,168	44.5%
5	Canada	31,554	6,427	20.4%
6	Albania	6,301	5,124	81.3%
7	China	8,540	5,121	60.0%
8	Germany	15,805	4,152	26.3%
9	Romania	7,810	4,112	52.7%
10	Japan	5,101	3,859	75.7%
11	Poland	12,832	3,730	29.1%
12	Yemen	5,794	3,623	62.5%
13	Philippines	9,782	3,449	35.3%
14	Bosnia & Herzegovina	3,340	3,322	99.5%
15	Puerto Rico	6,585	2,852	43.3%
16	Russia	4,260	2,714	63.7%
17	Pakistan	5,129	2,689	52.4%
18	England	8,205	2,654	32.3%
19	Ukraine	4,265	2,343	54.9%
20	Korea	6,082	2,039	33.5%
21	Bangladesh	2,938	1,830	62.3%
22	Yugoslavia	6,973	1,698	24.4%
23	Jordan	3,142	1,497	47.6%

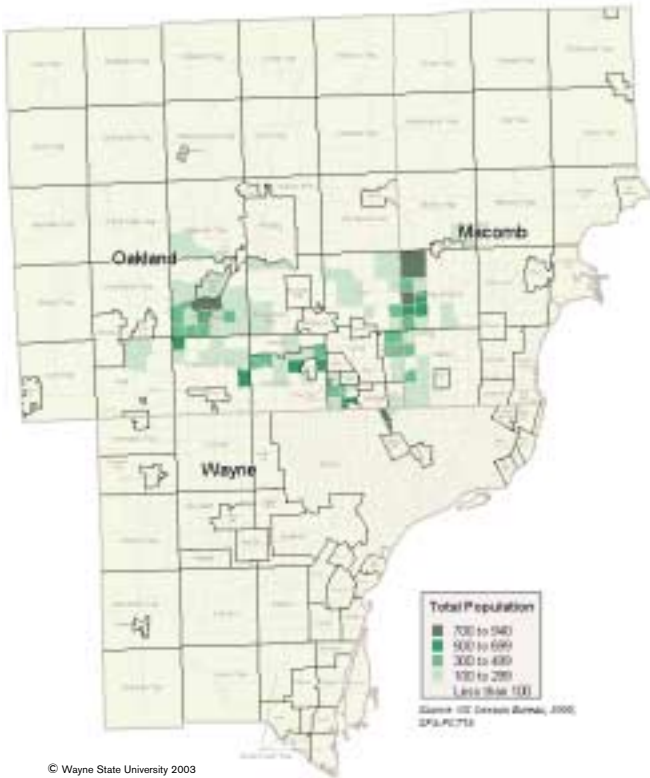
\* Public-Use Microdata Samples

### Geographic Overview

European immigration characterized most of the twentieth century in southeast Michigan. While many of the immigrants had different national and ethnic origins, most shared a similar bond. For the most part, many had either artisan or agricultural backgrounds with limited financial capital. The inscription on the Statue of Liberty describing the poor, tired, huddled masses describes many of the immigrants that made their way to Detroit. By 2000, several changes had taken place. No longer was the primary source of immigration from Europe, and the commonality



## Map 2: Chaldean Ancestry Southeast Michigan Patterns of Diversity



However, there are exceptions. Chaldeans, whose origins are in present day Iraq, distinguish themselves from other Iraqi immigrants based on religious differences.<sup>4</sup> Islam is the official religion of many countries in the Middle East. However, religious minorities that live in these countries have made their way to the United States. Two such groups in southeastern Michigan include Coptic Egyptians and Chaldeans. Both of these groups are religious minorities in their home countries because they practice Christianity rather than Islam. In the Detroit area, the settlement pattern for Chaldeans (see Map 2) is primarily in North Central Detroit and into Macomb and Oakland Counties, which is different than that of Muslim Iraqis who are mainly located in Dearborn.

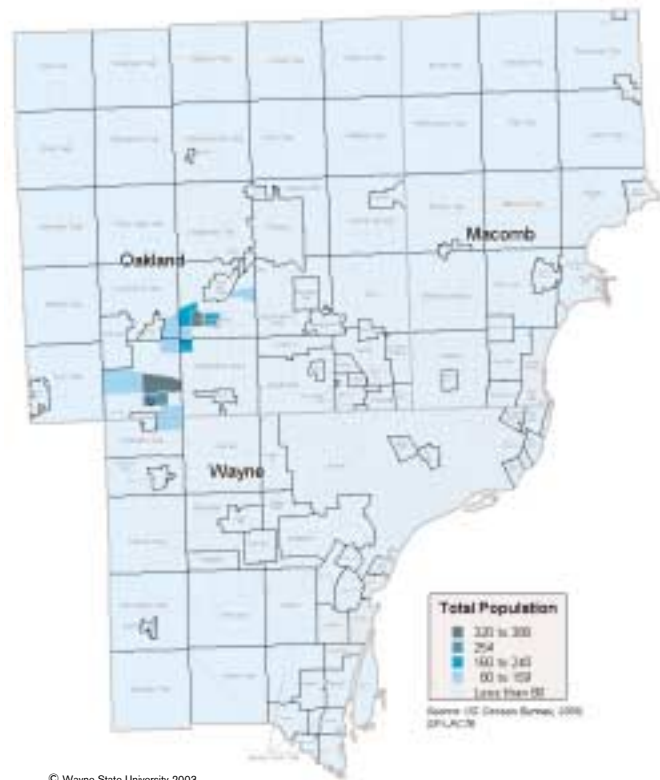
### Socioeconomic Analysis

The key to modern immigration trends in southeast Michigan is diversity. At the height of immigration, poor Europeans composed the bulk of persons entering the region. Currently, immigrants with limited financial means are not only arriving from war torn countries in Europe like Albania, Bosnia, and Russia, but also other regions of the world, including the Middle East, Asia, and South America. Further, the Detroit metropolitan area is attracting immigrants with advanced degrees and training in the fields of medicine, engineering,

of socioeconomic status was less important. Currently, immigration to Detroit comes mainly from three world regions: Middle East, Asia, and North America. Table 1 ranks immigrant groups by the number that arrived between 1995 and 2000.

Besides diversity of origin, immigrant groups in southeast Michigan have different settlement patterns. Asians tend to immigrate mainly to Oakland County, but there are sizeable populations in Macomb, Wayne, and Washtenaw counties as well (see Map 1). The main influence on their settlement pattern is socioeconomic status. Asian groups with higher income and education (Asian Indian, Chinese, and Japanese) are found in suburban cities like Troy, Bloomfield Hills, and Farmington Hills. Groups with limited financial means (Hmong, Bangladeshi, and Pakistani) have a very different pattern. Because of their smaller numbers, limited financial means, and the housing market of southeastern Michigan, these groups primarily settle in older suburbs like Hamtramck and Warren or central cities like Detroit and Pontiac. Group size influences the settlement patterns of Middle Eastern immigrants as well. The largest groups immigrating to southeast Michigan include persons from Iraq, Lebanon and Yemen. For the most part, many of these immigrants settle in Dearborn, which has the largest concentration of Arab immigrants in the United States.

## Map 3: Japanese Population Southeast Michigan Patterns of Diversity



and computer systems. For example, 72 percent of Asian Indian immigrants living in the Detroit region have a bachelor's degree or higher. When compared to groups like Bangladeshi and Yemeni, among whose populations less than 13 percent and 6 percent respectively have college degrees, the socioeconomic gap between immigrant groups becomes apparent. Closely related to educational attainment is income. Using household income as a measure of financial earnings, Table 2 shows the diversity of earnings for immigrant groups.

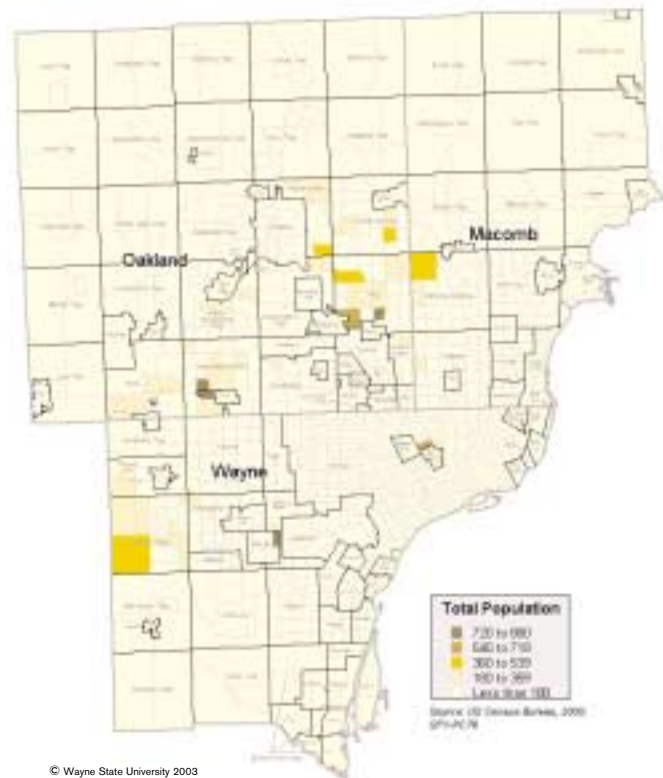
**Table 2: Median Household Income by Place of Birth for Persons Living in Detroit PMSA, 2000**

Source: US Census Bureau, 2000 PUMS 5%

Country	Median Income*
Total Detroit PMSA	\$50,000
Mexico	\$44,301
Iraq	\$45,001
India	\$82,001
Lebanon	\$34,270
Canada	\$57,801
Albania	\$37,100
China	\$55,700
Germany	\$65,401
Romania	\$60,001
Japan	\$98,211
Poland	\$52,001
Yemen	\$30,800
Philippines	\$75,150
Bosnia and Herzegovina	\$42,931
Puerto Rico	\$35,300
Russia	\$75,000
Pakistan	\$55,500
England	\$65,000
Ukraine	\$49,700
Korea	\$60,000
Bangladesh	\$29,001
Yugoslavia	\$50,001
Jordan	\$46,001

\*1999 Dollars

**Map 4: Asian Indian Population Southeast Michigan Patterns of Diversity**

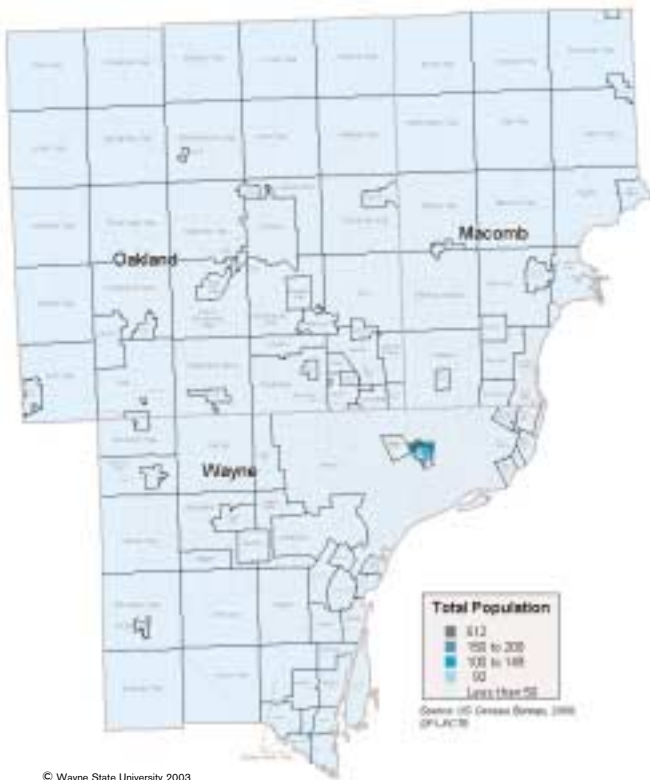


With a regional median household income of \$50,000, not all groups are financially limited, but many groups earn less. Immigrants born in Japan or India have the highest median income of any immigrant group in the region, while those born in Bangladesh, Yemen, and Lebanon have the lowest. The settlement patterns of these groups within the Detroit region represent their socioeconomic status. Maps 3 and 4 show the distribution of the Japanese and the Asian Indian populations in metropolitan Detroit. They tend to reside in wealthy suburbs with large white-collar workforces and ease of access to regional employment nodes like Oakland County's "Automation Alley." Conversely, Map 5 shows the distribution of Bangladeshi immigrants who tend to reside in older cities that contain a manufacturing and service sector workforce. Also, because of their smaller size, these groups tend to be much more tight-knit and condensed.

**Conclusion**

Immigration to the Detroit Metropolitan Area helped build its industrial future before World War I. After the World Wars, the region had to rely on labor from the American south, but immigrant labor still continued to trickle in over the decades. By 1980, immigration began to increase again, but in patterns different than previous years. Early immigration was characterized by people with limited financial means

## Map 5: Bangladeshi Population Southeast Michigan Patterns of Diversity



### Notes

- 1 Zunz, O. 1982. *The Changing Face of Inequality*. Chicago: The University of Chicago Press.
- 2 Katzman, D. M. 1975. *Before the Ghetto*. Chicago: University of Illinois Press.
- 3 Farley, R., Danziger, S. and Holzer, H. J. 2000. *Detroit Divided*. New York: Russell Sage Foundation.
- 4 Abraham, S. Y. and Abraham, N. 1981. *Arabs in the New World*. Detroit: Wayne State University Center for Urban Studies.

from Eastern Europe. Recent patterns are dominated by immigrants from Mexico, Asia, and the Middle East. Furthermore, there is a vast difference in the socioeconomic status of these groups arriving and their settlement patterns within the region. Even with the diversity of newly arriving immigrants, they contribute a great deal to the growth of the population and workforce of the Detroit region. Their role will become more important in the coming years as domestic born racial/ethnic groups dwindle through changing fertility patterns or migration to other regions of the United States.

*Jason Booza is a geographic information specialist with the Center for Urban Studies, Wayne State University, Michigan. Experienced in analysis of census data, his projects have chronicled changes in neighborhood diversity across the largest metropolises in the U.S. and demographic changes in Detroit over the past 30 years. Mr. Booza's most recent research project involves the suburbanization of minority populations. He holds degrees in criminal justice and sociology, and is currently pursuing a doctorate in political science.*



# Predatory Lending— A Grassroots Perspective

By Tyler Uetz

Iowa Citizens for Community Improvement (CCI) is a multi-issue, statewide nonprofit organization with a 28-year history and nearly 2,000 dues-paying members. CCI was founded in 1975 in Waterloo, Iowa, by people who wanted to address local problems and improve their community. Since then, CCI has expanded to include urban members from Des Moines and family farmers and other rural citizens from across the state. Iowa CCI's purpose is to empower and unite grassroots people of all ethnic backgrounds to address problems in their community and win positive social, economic, and environmental justice.

Because of CCI's work with the Community Reinvestment Act (CRA), banks and mortgage companies have made over \$70 million in home loans in Des Moines' low- and moderate-income neighborhoods in recent years. CCI has partnered with local lenders on many initiatives in efforts to preserve and improve Iowa neighborhoods. Despite many successes, CCI has seen an increasing number of complaints from its constituency regarding predatory lending in the last several years.

Predatory mortgage lending is not just a problem—it is a threat to neighborhoods and families all across the country. CCI first became aware of the issue after learning of Des Moines families defrauded by unscrupulous home improvement contractors. Typically, a contractor originates a loan for the homeowner to cover the cost of improvements, takes full payment for the work from the loan proceeds and then does not satisfactorily finish the improvements. As CCI researched individual situations, they began to learn about other types of predatory financing scams. Families complained of bait and switch tactics, over-appraisals, higher than promised monthly payments, excessive fees, hidden balloon payments, and harassment by lenders. Following are summarized situations of several CCI clients:

- A borrower was invited to refinance with his existing lender, and was then charged a \$4,000 prepayment fee.
- A borrower, during the sales presentation for a mortgage loan, was promised that his payments included amounts

to be escrowed to cover taxes and insurance. He had to pay taxes and insurance in arrears when it turned out that the sales person's assertions were false. The same lender then offered to refinance the loan, triggering a \$3,500 prepayment penalty.

- One lender refinanced a borrower from an 11.5 percent fixed rate loan to a loan with an adjustable rate beginning at 11.975 percent.
- A homeowner borrowed \$49,000 for home improvements. After 15 years of payments, the loan terms called for a balloon payment of \$48,000.

CCI has addressed predatory lending by organizing families to stand up, speak out, and fight back against the companies who have abused them. CCI formed the Predatory Lending Task Force in October, 2000. Through media exposure, meetings with government officials, such as Iowa Attorney General Tom Miller, and applying direct pressure to predatory lenders, CCI has been able to repair individual loans and begin setting lending guidelines for individual companies.

One task force member had received a loan from a lender to finance some home improvements. She had not been shopping for a loan, but was offered a refinance with cash out for improvements. She discovered at closing that the payments were higher than she had expected, but because she had been working with the loan officer for so long, she proceeded with the closing. After about a year, the homeowner began having difficulty making her monthly payment. Not wanting to get behind she approached another lender to discuss a refinance. The interest rate offered her was 13 percent, and she felt that she could get a better deal. But other lenders refused her because her home had been over-appraised in connection with the existing loan and there was no equity left. She had no idea what to do and could not afford an attorney. In this situation, there appeared to be very few laws to protect her. Fortunately she found CCI and joined the task force. After meeting with the Iowa Attorney General, the Iowa Division of Banking, and visiting the lender's offices with 104 friends, the homeowner and

CCI were finally able to meet with an official of the lender who had the power to change her loan terms. Her loan principal was reduced by \$25,000, her interest rate was lowered to 8 percent. Her monthly payment went from \$940 down to \$450.

Only because grassroots people came together was this particular homeowner able to save herself from foreclosure and financial ruin. She prevailed because she was not intimidated by a lender who had created an abusive relationship and attempted to blame her for her financial troubles arising from the loan.

In addition to fixing her loan, this lender repaired other loans and signed a partnership agreement which set standards for their loans in the state of Iowa. The lender vowed to:

- Cap points and fees at 5 percent
- Stop selling Single Premium Credit Insurance
- Cease originating loans with balloon payments and negatively amortizing loans
- Cease bait and switch marketing
- Ban rapid refinancing of high-cost loans, often referred to as flipping
- Restructure loans with problematic and unfair terms

This lender continues to meet with CCI to monitor the progress of the agreement. CCI has been even more successful in dealing with another mortgage lender. CCI and this lender have been in negotiations for several months and are close to reaching an understanding on a partnership agreement with provisions similar to those outlined above.

This progress has been possible only because of the strength shown by victims of unfair treatment by their lenders. Typically, predatory lenders try to make families feel responsible for their own situation, trying to instill a sense of guilt or shame and thereby discouraging borrowers from acting on their own behalf. This behavior on the part of lenders has the secondary effect of keeping abusive practices from becoming widely recognized by consumers.

Through education and publicity, CCI has helped victims to break through the negative self-perceptions, and to act. Community groups and traditional lenders must work together to inform the public. The negative effects of improvident loans and predatory loans can be far-reaching; heavy financial stress of any kind on a household can impact relationships and even physical health.

CCI is proud of its long relationship with traditional lenders. CCI holds classes throughout the year to prepare people for homeownership, and to teach potential homeowners how to find a competitive mortgage. CCI also participates in statewide anti-predatory lending forums, credit and home buying seminars, and provides ongoing financial literacy training. Our members are dedicated to preserving homeownership and Iowa communities.

Recent changes to the Home Ownership Equity Protection Act (HOEPA) have been applauded by many as one step that was needed to help curb predatory lending. But HOEPA only works for a limited portion of loans. The majority of problems that CCI has seen were not HOEPA issues. Predatory lenders often know the HOEPA triggers and are careful not to cross the line.

There are, however, additional measures that could greatly increase our ability to fight predatory lending. Iowa CCI and groups all across this country have worked together for many years to ensure that the Community Reinvestment Act has been used to the benefit of our neighborhoods. But times have changed, and certain adjustments would perhaps go a long way toward helping the fight against predatory lending.

First, CCI believes that the Home Mortgage Disclosure Act (HMDA) data needs to be modernized. By including points, fees, interest rates, and credit scores in HMDA reported data, community groups and regulators could get a better idea of which institutions may be engaging in abusive practices. Some predatory practices are committed by lenders who are CRA regulated banks.

Second, CCI would like to see subprime affiliates and subsidiaries of CRA regulated institutions included in the depository's CRA exam. Institutions currently have the option of choosing whether or not to include affiliate and subsidiary lending activity in their CRA exam. For example, a financial institution can own a lender that engages in predatory practices and use those loans to enhance its CRA rating. This is contradictory to the purpose of CRA. Not all credit is good credit. We need to make sure that loans going into low- and moderate-income neighborhoods are sound loans.

To fail to take measures to combat predatory lending is to leave many of our most vulnerable populations without adequate protection, and to subject low- and moderate-income neighborhoods to abusive lending practices that ultimately result in neighborhood decay and the financial destruction of individuals. We at CCI are committed to helping prevent such an outcome.

*For additional information, go to [www.iowaccci.org](http://www.iowaccci.org).*

*Tyler Uetz is the predatory lending organizer for the Iowa Citizens for Community Improvement (CCI). For four years at CCI he has organized victims of predatory lending to fight back against predatory lenders by negotiating with the lending institutions to fix and correct predatory loans and change the companies' lending practices. Before joining CCI, Mr. Uetz worked on local and national political campaigns.*

# Merging the Two Sides: Community Needs and Market Opportunities

By Mari Gallagher

**W**hat does a community need, and what can its market support? Financial institutions, regulators, community development financial institutions, community development corporations, and a wide range of others have been asking this question more regularly. Perhaps you have been asking yourself this and other questions:

- Are community needs the same as market demands?
- Does an institution's service area comprise the same boundaries as its market?
- Where can I find strategic data and information to understand and interpret these dynamics?
- Can my community support a new grocery store, more daycare centers, or a bank branch? What is our competitive advantage?
- How can these opportunities be measured, communicated, and acted upon?

As part of its public mission, Metro Chicago Information Center (MCIC) occasionally sponsors free workshops and forums to help answer these and other questions and to share our latest market research methodologies and techniques.

Needs assessments quantify deficiencies; market analyses quantify opportunities. Both are important.

Community needs assessments often focus on what some have despairingly dubbed “poverty data.” Organizations quantify the number of individuals they serve. They count single family households, assess infant mortality and high school dropout rates, and measure poverty levels—census tract by census tract. Often these reports are developed to support policy positions for funders who require them, or simply for the organizations themselves, who wish to learn more about their community's changing trends.

But the “tale of the tracts” often misses key challenges and opportunities. On a per capita basis, these neighborhoods are more likely to have currency exchanges in place of main-

stream bank branches, liquor stores in place of full service grocery stores, and adult book stores in place of family book stores, which also offer cultural and new learning venues for young and old alike. Yet these communities are not without emerging assets that individuals and community networks can foster and expand, and that new wealth-building and market-building opportunities can be built upon.

In Chicago, a wide range of actors are collaborating on new, practical ways of thinking about and measuring individual, household, and community assets. For instance, cultural and institutional assets (such as libraries, post offices, community centers, and religious institutions) add value to communities, but their impact is not readily measurable. Economics and quality of life go hand in hand. At least that has been historically true for many of Chicago's south side communities. What's needed are new ways to increase the impact of these assets on a regular, affordable, and geographically appropriate basis.

We are reminded of this by the fact that not all blighted markets are poor. Last year, the Chicago Tribune compared conditions in African American middle-income neighborhoods to their White, middle-income counterparts. As the Tribune pointed out, just rising into the fiscal middle class does not inherently transport African Americans into the idealized American dream: a neighborhood insulated from poverty with nice stores, good schools, and safe streets.

“For the middle class, it's hard to maintain the lofty goals you have for yourself when this abject poverty is all around you,” said Pat Debonnett, MCIC member and executive director of the Greater Roseland Community Development Corporation. Roseland is located on Chicago's south side. Though it contains a substantial middle class population, it has had difficulty attracting quality, full-service businesses.

Ms. Debonnett was a featured panelist in a recent Women in Planning and Development public forum where MCIC presented its research on grocery store patterns throughout Chicago and the Six County Area. There are 86 major



*Roseland community, Chicago, Illinois*

grocery stores (Jewel, Dominick's, Cub Foods, and Aldi) in Chicago. Approximately 60 percent are located on the city's north side. This is the case even though the population distribution is roughly equal (1.47 million residents on the north side versus 1.41 million on the south side).

There are eight aldermanic wards in Chicago with no major grocery stores, and all of those wards are predominantly minority. Six of the eight wards are located on the city's south side. Of these six wards, five are predominantly African American and one is predominantly Latino. Both wards with no major grocer on the north side are predominantly Latino.

MCIC looked at racial patterns of stores city-wide and found:

- 3.4 per 100,000 population major grocers in White wards
- 2.6 per 100,000 population major grocers in Black wards
- 2.3 per 100,000 population major grocers in Latino wards

MCIC analyzed these same major stores by suburban location. Combined, there are 284 Jewel, Dominick's, Cub Foods, and Aldi stores throughout DuPage, Will, Lake, Kane, McHenry, and Cook counties (excluding the City of Chicago). A similar pattern emerged:

- 6.0 per 100,000 population major grocers in predominantly White suburbs and towns
- 4.3 per 100,000 population major grocers in predominantly Black suburbs and towns
- 2.6 per 100,000 population major grocers in predominantly Latino suburbs and towns

In the last five to ten years, specialty grocers and wholesalers on both the north and south sides have responded to untapped markets as well as the changing nature of shopping patterns and consumer preferences. Examples include Trader Joe's, Sav-A-Lot, Whole Foods, Ultra Food Warehouse, Costco, and Avanza—with mixed success. Avanza, owned by Nash Finch Company, opened two stores in Chicago in 2003, but is now closing the stores and leaving the market.

How do community advocates and market actors bring needed commercial venues—such as grocery stores—into undervalued neighborhood markets like Roseland and Little Village?

How do community advocates and market actors effect sustainable change in low- to moderate- and, in some cases, middle-income emerging markets? What key factors will stimulate emergence from blighted conditions?

The first step is to get both sides talking the same language and to identify where a broad range of interests might converge. Typically, the business community focuses on three core drivers: buying power, stability/growth, and risks/rewards. The social services sector often focuses on local deficiencies and hardships, and programs and policies to address them.

In the Roseland community, for example, drilling down into an analysis of income patterns, homeownership rates, safety measures, school improvements, and commercial leakage might identify sustainable “win-win” opportunities for shared community and market action. If not completely sustainable,





*Little Village community, Chicago, Illinois*

these potential community economic development investments might at least have smaller financing gaps than originally perceived.

In Little Village, a predominantly Hispanic community, a recent analysis blended secondary data sets with a bilingual consumer survey. The results have demonstrated that there is a thriving and dense commercial district with nearly 1,200 businesses. Despite the strong retail presence, MCIC determined that commercial leakage was occurring, meaning that local dollars were being spent outside of the market, particularly in the adjacent town of Cicero, where many “big box” stores are located.

Within one mile of a proposed development in Little Village, MCIC estimated buying power to be more than \$570 million annually with \$236 million destined for retail sales. We projected that roughly \$60 million is not being captured within the study area.

MCIC's client, the Little Village Community Development Corporation (LVDC), was also adamant about including community forums into the process.

“We wanted to have a third-party expert quantify what our market could support; but at the same time, we wanted to include the desires of the community, so that we can make informed choices that serve the interests of everyone,” said LVDC executive director, Jesus Garcia. MCIC and Chicago-based architectural firm CAPA teamed together to help community members develop a “vision” for the targeted development site as well as the community overall. The MCIC market analysis will also report on these findings.

Markets are more than just the built environment. Not all needs assessments or market analyses focus on developing new housing or grocery stores. Working closely with the United States Department of Agriculture Forest Service, and in collaboration with the Openlands Project for the Lake Calumet/Wolf Lake area and the City of Chicago Department of Planning and Development, MCIC designed and conducted focus groups with a variety of recreational users.

Getting input directly from recreational users in the area was important because there are a number of initiatives moving forward in the Calumet region to preserve and enhance natural habitats and open space, while redeveloping the area's industry at the same time.

While many not-for-profit organizations, government agencies, politicians and institutions had contributed to the Lake Calumet area planning process, input from casual users of the Lake Calumet and Wolf Lake area, not affiliated with any organized group and from nearby communities, had been absent. The findings from the casual users' focus group, combined with input from the other stakeholders in the area, helped in the planning and development of the Calumet area for recreational and industrial users and for wildlife habitat.

Chicago prides itself on being a global city. To stay competitive, the city needs to retain and grow our high-skill “knowledge” workers and provide the types of amenities that attract them.

Does that present development potential for downtown or neighborhoods like Roseland, where land is readily available and less expensive? Are developers missing opportunities in neighborhoods north, south, or west of downtown?



Are we missing opportunities in Illinois? There is little to refute that Illinois manufacturing overall is declining, as thousands of jobs have disappeared from the sector, although growth may be occurring in some sub-sectors.

Illinois is not alone in its dilemma as to how to grow meaningful jobs in viable sectors; other states are suffering from this same trend. MCIC research suggests the need to define sector and sub-sector priorities and related strategies and take action by region, focusing on firms that are viable, growing, provide meaningful jobs, and support a diversified economy. Also the research shows the need to foster collaboration and information sharing among Illinois towns, counties, and regions, and among neighboring states, to minimize unproductive bidding wars and the overpaying of firm location decisions.

Better and more drilled-down market information might point market players to missed opportunities. This is the case for particular neighborhoods, like Roseland, and towns, regions, and states.

## **About MCIC and More**

These types of projects bring full circle the quality of life and socio-economic determinants that MCIC continues to research and document. Providing strategic data, information, and research has been the core mission of MCIC since its inception 14 years ago. Founded by a consortium of business and philanthropic leaders at the Commercial Club of Chicago, MCIC continues to fill an information void.

Some of our approaches involve data blending and indices; others involve brand new custom datasets, such as the national database on bank branches that accept Matricula Consular cards and Individual Taxpayer Identification Numbers.

Matricula cards were first accepted by a small community bank in Chicago, Second Federal Savings, which worked in partnership with the Mexican Consulate office and the regulatory community. In 2001, Second Federal developed the Amigo account for anyone with a taxpayer ID number—which the IRS now allows banks to help issue—and the Matricula card. For this particular program, account holders keep one automated teller machine (ATM) card and send another to their family in Mexico who use it to withdraw money at a fraction of the cost of a wire transfer or money order. Today, approximately 30,000 (32%) out of roughly 88,000 total bank offices across the country accept Matricula cards, and Chicago is leading the way. The study was commissioned by the Federal Depository Insurance Corporation and recently released at a public forum co-sponsored by the Federal Reserve Bank of Chicago.

MCIC is moving much of its data, reports, universal findings, and content knowledge to an easily accessible online site ([www.mcic.org](http://www.mcic.org)). And we have developed new Web-based tools such as our Community Vitality Index (CVI).

CVI provides a Web-based tool that uses multidimensional indicators to quantify current community strengths in the Chicago metropolitan region. Here the focus is not deficiencies, but neighborhood potential.

CVI empowers users, from a policy and action perspective, by creating and comparing detailed neighborhood profiles and highlighting areas of opportunity to leverage community capacity for positive change. Users will no longer have to rely solely upon the “poverty data” for community needs assessments. What does a drill-down of data say about your custom market?

*To learn more about how you can access this and other information, and to receive notice of workshops and forums at no charge, visit [www.mcic.org](http://www.mcic.org).*

*Mari Gallagher is a senior consultant at MCIC. Ms. Gallagher previously directed the Emerging Neighborhood Markets Initiative, a two-year Chicago pilot project spearheaded by Social Compact. Ms. Gallagher earned an M.A. from the University of Illinois, School of Urban Planning and Policy and a B.A. from DePaul University in Political Science.*

# Bank Expansion Decisions and CRA Performance<sup>1</sup>

by Robin Newberger and Anna Paulson

In early 2004, JP Morgan Chase and Bank One announced plans to create the second largest banking organization in the country. Before the deal was completed, the primary regulator for the acquiring bank, in this case the Federal Reserve, along with state banking agencies and the Department of Justice, had to evaluate the effect of the proposed merger on competition, the financial condition of the new entity and the competence of the managerial resources of the applicant. In addition, bank regulators had to consider each bank's record in providing credit to low- and moderate-income neighborhoods and individuals, according to provisions of the 1977 Community Reinvestment Act (CRA). Community groups also weighed in with their assessment of the consolidation based on CRA considerations. The merger could have been delayed substantially if community groups had identified sufficient grounds for objection.

While the size of the institutions might heighten publicity around this particular merger, the regulatory and public scrutiny is standard for all bank mergers and acquisitions. In this environment, the question has often been asked whether banks strategically increase their share of lending to low- and moderate-income individuals and neighborhoods in anticipation of merging with or acquiring other institutions. While most studies of the Community Reinvestment Act focus on its impact on bank profitability and efficiency,<sup>2</sup> this article considers whether linking CRA enforcement to the merger review process itself encourages banks to make lending decisions that facilitate the approval of consolidation plans. This possibility creates a near-term concern about "window-dressing" that could mask the actual role a bank plays in a given community. It also has implications regarding the longer-term commitment of banks to meet credit needs throughout their assessment areas once the consolidation process is finished, or more generally, when consolidation does not play a major role in the banking industry.

Empirical analysis helps shed light on this matter. The basic question is straightforward: to what extent does the proportion of lending to low- and moderate-income individuals and neighborhoods (hereafter abbreviated as "CRA lending")<sup>3</sup> in one year influence the probability that a bank makes an acquisition in the following year? In other words, do banks increase CRA lending prior to implementing consolidation plans? The analysis isolates the effect of CRA lending by holding other possible influences fixed, such as key bank characteristics (size of assets, capital/asset ratio, bank holding company status) and the calendar year (this captures the effect of other banking trends over the period). The inclusion of these other variables in the analysis disentangles the impact of CRA lending from other possible determinants of acquisitions.

The analysis shows that banks with higher levels of lending to low- and moderate-income neighborhoods do have a greater likelihood of making an acquisition compared to other banks. The higher the percentage of the institution's mortgage originations in a given year that are directed to low- and moderate-income individuals or neighborhoods, the greater the probability that the institution will acquire another bank in the following year.

The impact is both statistically and economically significant. If we were to compare two similar banks, one whose share of CRA loans is in the bottom quartile of all banks (i.e., up to 25 percent of banks do less CRA lending), and a second whose share falls in the third quartile (i.e., a quarter to just under a half of banks do more CRA lending), the second bank would be 8 percent more likely to make an acquisition than the first. To put this in context, the average bank would have to grow its assets by \$252 million, or 43 percent, to show a comparable increase in the probability of acquiring another bank.

One might be concerned that it is not CRA lending, but some other characteristic that explains the association between CRA lending and the likelihood of making an acquisition.

This possibility is ruled out by a second statistical model that controls for individual bank characteristics. These results show that if a particular bank were to increase its share of CRA lending, the likelihood that that bank makes an acquisition would also increase. These results are particularly relevant for considering the experiences of banks which occasionally take part in the acquisition process. These are the institutions whose decisions about how much CRA lending to do are most likely to be influenced by the possibility of facing the regulatory and public scrutiny associated with an acquisition.

To convince ourselves that these findings are due to the link between CRA enforcement and the merger review process, three additional analyses can be done. The first compares the share of CRA lending in each year studied. Since public and regulatory scrutiny of a bank's CRA record became more intense over the 1991 to 1995 period, CRA lending in later years should have a greater impact on the likelihood of acquisitions. The results show CRA lending in 1990 and 1991 do not have a significant impact on the probability of an acquisition in the following year, but the effect of CRA lending is significant and increasing from 1992 to 1994.

The second analysis compares CRA lending according to asset size. Given that public and regulatory scrutiny is more intense for big banks that make acquisitions, the share of CRA lending at larger banks should exhibit a greater impact on acquisition behavior than smaller banks. Again, the results show that the relationship between CRA lending and the probability of future acquisitions is highest for banks in the top two quartiles of the asset size distribution.

Finally, the results show that CRA lending has no statistical or substantive impact on the likelihood of being the target of a merger. These banks typically face less attention from regulators and the public in the application process.

Linking CRA lending to public and regulatory scrutiny may improve the effectiveness of the Community Reinvestment Act, at least during periods of consolidation in the banking industry. Provisions in the Gramm-Leach Bliley Act, passed in 1999, suggest that CRA may remain an important strategic consideration for banks for some time. As is the case for acquisitions, banks that wish to expand their activities into insurance and/or security underwriting will need to seek regulatory approval, and regulators are required to consider the bank's record of CRA lending in granting it. The findings from this analysis make it important to consider the impetus for banks to focus on CRA lending if consolidations and expansions into new activities become less prevalent. As regulators, community groups and bankers assess whether the trend towards consolidation will continue, understanding the relationship between CRA lending and bank interactions with the public and regulators will be essential for shaping policies to ensure that the credit needs of the broadest spectrum of society are met.

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## Notes

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1 This article summarizes research by Anna Paulson, Raphael Bostic, Hamid Merhan and Marc Saidenberg. Their findings appear in "Regulatory Incentives and Consolidation: The Case of Commercial Bank Mergers and the Community Reinvestment Act," available at [www.chicagofed.org/publications/workingpapers/papers/wp2002-06.pdf](http://www.chicagofed.org/publications/workingpapers/papers/wp2002-06.pdf).

2 Studies have shown that, while lending to low-income individuals and minorities generates greater defaults, greater return volatility, higher operating costs, and increased charge-off rates, lenders are compensated for this and generate similar rates of return compared to banks that do not specialize in loans to low- and moderate-income individuals. Other researchers have also found that banks that specialize in lending to low- and moderate-income individuals are as profitable as other banks.

3 "Lending" refers to home mortgage originations because public data are only available for mortgages over the period studied. The period of acquisitions studied is 1991 to 1995. The information on CRA lending and bank characteristics is taken from 1990 to 1994 (to lag the data on acquisitions by one year).

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*Robin Newberger is a research analyst in the Consumer Issues Research group of the Consumer and Community Affairs division of the Federal Reserve Bank of Chicago. Ms. Newberger is currently working on research related to the savings behavior of low- and moderate-income people in Chicago. She holds a B.A. from Columbia University and a Masters in Public Policy from the John F. Kennedy School of Government at Harvard University. She is a holder of the Chartered Financial Analyst designation.*

*Anna Paulson is the manager of the Consumer Issues Research group of the Consumer and Community Affairs division at the Federal Reserve Bank of Chicago. She was a member of the Finance Department at the Kellogg School of Management at Northwestern University for six years prior to joining the Fed. Her research focuses on how households cope with risk and incomplete financial markets. In 1998-99, she was a National Fellow at the Hoover Institution at Stanford University. Her current research focuses on the financial assimilation of immigrants, the dynamics of entrepreneurship and the impact of risk on household decisions. She holds a Ph.D. in economics from the University of Chicago, and a B.A. in economics from Carleton College.*

### Final Rules for FACT Act Approved

The Federal Reserve Board recently announced its approval of final rules to establish effective dates for all provisions of the Fair and Accurate Credit Transactions Act of 2003 (FACT Act) that do not have a statutorily prescribed effective date. These regulations are being issued jointly with the Federal Trade Commission.

The FACT Act became law on December 4, 2003. In general, the Act amends the Fair Credit Reporting Act (FCRA) to enhance the ability of consumers to combat identity theft, to increase the accuracy of consumer reports, and to allow consumers to exercise greater control regarding the type and amount of marketing solicitations they receive. The FACT Act also restricts the use and disclosure of sensitive medical information. To bolster efforts to improve financial literacy among consumers, Title V of the Act (entitled the "Financial Literacy and Education Improvement Act") creates a new Financial Literacy and Education Commission empowered to take appropriate actions to improve the financial literacy and education programs, grants, and materials of the federal government. Lastly, to promote increasingly efficient national credit markets, the FACT Act establishes uniform national standards in key areas of regulation.

The recently enacted FACT Act amended the FCRA and required the Board and the FTC to adopt final rules establishing the effective dates for certain provisions of the FACT Act. In mid-December, the Board and the FTC jointly adopted interim final rules that established December 31, 2003 as the effective date for the preemption provisions of the FACT Act, as well as provisions authorizing the agencies to adopt rules or take other actions to implement the FACT Act. The agencies now have adopted final joint rules with the same schedule of effective dates contained in the interim rules.

Also in mid-December, the Board and the FTC jointly issued for comment proposed joint rules that would establish a schedule of effective dates for other pro-

visions of the FACT Act that do not contain effective dates. After reviewing the comments on the proposal, the agencies adopted joint final rules that established March 31, 2004, as the effective date for the provisions of the FACT Act that do not require significant changes to business procedures. With respect to other provisions that likely entail significant changes to business procedures, the joint final rules make these provisions effective on December 1, 2004, to allow industry a reasonable time to establish systems to comply with the statute. On June 8, 2004, the Board issued amendments to Title V, adding model notices for financial institutions to use if they provide negative information to consumer reporting agencies, and guidance for their use.

### CEDRIC

The Consumer and Economic Development Research and Information Center (CEDRIC) was first introduced to the public via the Federal Reserve Bank of Chicago's Web site in 1998. Its principal mission is to foster research related to consumer and economic development issues such as consumer and small business financial behavior, access to credit, affordable housing, and community development and reinvestment.

CEDRIC serves as a portal for sharing relevant community and economic development information, and houses several related resources: Research Repository, Financial Education Research Center, Lessons Learned: Community and Economic Development Case Studies (LesLe), and Household & Small Business Data Web pages. CEDRIC also provides a subject listing describing the topics in each repository category, a Federal Reserve System publication listing, valuable data resources, links to CEDRIC partners, and a calendar of industry events taking place throughout the nation. Also included on the site are proceedings and papers from past Federal Reserve System research conferences, links to a glossary of community development terms and Federal Reserve System community and economic development programs and initiatives.

## **CEDRIC's Research Repository**

CEDRIC's Research Repository includes abstracts of research studies, reports, articles, working papers and other studies generated by Federal Reserve researchers and analysts, academicians, government agencies, and nonprofit organizations. Currently there are nine categories: Community and Economic Development, Consumer Financial Behavior, Financial Literacy and Consumer Education, Housing, Immigrant (Financial) Access, Indian Reservation Development, Institutional Behavior, Scale/Sustainability (of Community Based Organizations), and Small Business.

CEDRIC recently updated its repository database with a more user-friendly search engine. The search function will find all documents associated with a word or phrase entered. The title, subject, keyword, and author fields in our database are searched automatically; other categories can be added to a search. A quick search of a particular category is also an option.

## **Financial Education Research Center**

The Financial Education Research Center seeks to promote excellence in financial education by providing online resources for researchers, educators, program directors, and others interested in supporting these types of programs and initiatives. These resources include a research repository of studies with topics such as: credit and debt management, financial education programs, insurance issues, resources for economic education, credit and debt management, retirement planning, savings and spending, and tax topics.

Also included on this page is a listing of major financial education programs throughout the country. The listing includes the organization's name, contact information, and a brief description of the financial education products and services offered. The programs are grouped by the following categories: federal agencies and programs, Federal Reserve initiatives, financial institutions and corporations, Internet resources, national organizations and initiatives, and university/cooperative extension programs.

## **Lessons Learned: Community and Economic Development Case Studies (LesLe)**

LesLe is a searchable database of case studies about community development practices and programs. The case studies identify a problem, the solution, results, and the lessons learned about the financing of community and economic development projects and programs. LesLe case studies are selected with consideration to their potential for replication into other geographic areas.

## **Community Surveys & Data**

Household & Small Business Data. The purpose of this Web page is to provide researchers and community development professionals with household and small business survey instruments and data from diverse communities. The data reflect the diverse perspectives of the original researchers and offer detailed information about the economic and social circumstances of households and small business owners. The surveys cover access to credit, household and business finance, and small business development.

*We encourage users to contribute relevant papers, studies, and program descriptions to CEDRIC. Visit CEDRIC on the Federal Reserve Bank of Chicago's Web site at [www.chicagofed.org/cedric](http://www.chicagofed.org/cedric). For further information, contact CEDRIC's coordinator at [cedric@chi.frb.org](mailto:cedric@chi.frb.org).*



## Calendar of Events



### **The Eighth Annual National Community Development Lending School** Minneapolis, MN July 18-22, 2004

Sponsored by the Federal Reserve Bank of San Francisco and the Federal Reserve Bank of Minneapolis, there will be five days of intensive training on the key issues and current industry trends relevant to community development lending in today's business environment. Students choose three courses from five core lending areas—single-family housing, multi-family housing, small business, commercial real estate, and community-based facilities. Each day-long course stresses the mechanics of underwriting community development loans and ensuring their long-term profitability.

An updated and redesigned curriculum focuses on structuring and underwriting community development loans and includes case studies, site visits, and interaction with community development experts.

*For more information, visit [www.frbsf.org/community/resources/events.html](http://www.frbsf.org/community/resources/events.html) or contact Bruce Ito at [Bruce.Ito@sf.frb.org](mailto:Bruce.Ito@sf.frb.org) or at (415) 974-2422.*

### **The Third Annual Financial Management Professionals Conference** Chicago, IL July 28-30, 2004

Co-sponsored by LISC and Citibank, this is the only professional development and networking event for finance managers in the community development industry. Bringing together CDC finance and accounting staff, executive directors, board members, accountants, lenders, and technical advisors to share best practices, industry information, and explore how managers can best build and maintain sound organizations.

*For more information, contact Lisa Deller at [ldeller@lisc.org](mailto:ldeller@lisc.org).*

### **Regulatory Roundtable** Cambridge/Marrieta, OH August 20, 2004

An interactive seminar designed to help financial institutions and nonprofit, community- and faith-based organizations

understand the requirements of the Community Reinvestment Act (CRA) and how depository institutions are evaluated. The program will include an overview of CRA, exam procedures, definitions and examples of qualified investments. The workshop is presented free of charge; however, advance registration is required.

*For more information, contact Paula Warren at [Paula.S.Warren@clev.frb.org](mailto:Paula.S.Warren@clev.frb.org) or at (800) 433-1035.*

### **Global Pressures on Local Autonomy: Challenges to Urban Planning for Sustainability and Development** Louisville, KY September 4-8, 2004

The International Urban Planning and Environment Association's sixth international symposium. The event will explore a variety of topics with regard to the theme, including planning for sustainability, measuring what is effective and defining frameworks that promote sustainability. The Louisville region will be in the spotlight for its contributions as a center of serious planning and effort to promote economically and environmentally sustainable urban development. The symposium is sponsored by the Federal Reserve Bank of St. Louis and the Center for Environmental Policy and Management at the University of Louisville.

*For more information, visit the conference Web page at [www.cepm.louisville.edu/IUPEAL/index.html](http://www.cepm.louisville.edu/IUPEAL/index.html).*

### **Brownfields 2004: Gateway to Revitalization** St. Louis, MO September 20-22, 2004

Brownfields are the sole focus of this annual event sponsored by the Environmental Protection Agency and the International City/County Management Association. The conference will feature interactive discussions, educational presentations and opportunities to network with business, government and nonprofit organizations working in brownfields redevelopment.

*For more information, visit [www.brownfields2004.org](http://www.brownfields2004.org).*

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