



Comptroller of the Currency
Administrator of National Banks

Community Developments

Summer 2001

The OCC's Community Affairs Newsletter

INSIDE

Measuring Spending
Power in Low-income
Communities

PAGE 6

Meeting Financial Needs
of the Unbanked

PAGE 8

Small Business Lending
to Underserved Markets

PAGE 13

Faith-based Economic
Development

PAGE 18

Special Purpose
Credit Programs

PAGE 22

At the Web site

Visit our Web site at

[www.occ.treas.gov/
cdd/resource.htm](http://www.occ.treas.gov/cdd/resource.htm)

to see additional materials:

New Community
Corporation-Diversity
in Action

Serving the Latino
Community

Freddie Mac on
Greenlining
Homeownership

Growing Diverse Banking Markets

Going Beyond Traditional Measures—

by John D. Hawke, Jr.

Comptroller of the Currency

PAGE 3



Bank of America and NAACP Form Strategic Alliance

by Tish Gonzalez, Senior Vice President, Bank of America

The face of America is rapidly changing. By the year 2025, minorities will account for nearly 38 percent of the population of the United States. Minorities and immigrants are becoming the biggest force in

the housing market, and are projected to represent 80 percent of first-time homebuyers in just nine years. Three minority groups — African Americans, Hispanics, and Asian Americans — have an estimated annual purchasing power of one trillion dollars.

These trends spell opportunities for innovative banks willing to reach out to diverse customers with widely varying needs and resources. Bank of America has been at the forefront of developing affordable mortgage products, and in 1998 we made an unprecedented commitment to lend and invest more than \$350 billion in community development.

Last year Bank of America helped more than 41,000 low-income families buy a home. We helped strengthen communities by providing home financing on nearly 19,000 houses in low-income neighborhoods. And the bank strengthened its position as a leader in home financing to minorities, the fastest growing segment of homebuyers. In 2000, Bank of America increased home financing to African-Americans by 25 percent and to Hispanics by nearly 27 percent from the previous year.

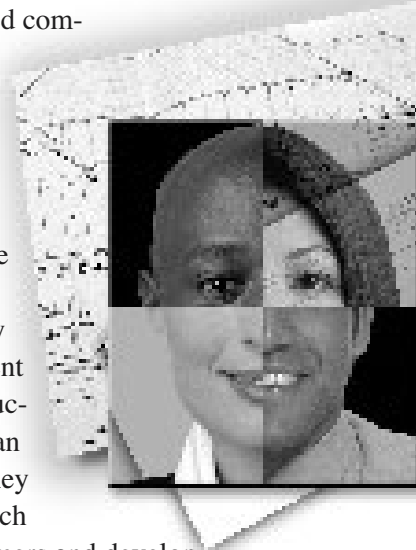
“What’s clear to me,” says Michael H. Dulan, Bank of America President of Community Development Banking, “is that reaching our community development goal is more than an issue of meeting regulatory hurdles. It transcends living up to a \$350 billion commitment. Investing in community development is, quite simply, a business imperative. Either we seize the market opportunity before us or someone else will.”

The power of strategic alliances

As Bank of America has focused on reaching a broader base of customers within its communities, the bank has learned that a non-traditional approach is often required to attract those who believe banks just aren’t interested in their business. One such approach is working through strategic alliances. Bank of America works with dozens of national organizations and hundreds of local ones to target outreach or production for lending and investing in underserved communities.

“Strategic alliances have become a cornerstone to our community development business success,” Dulan notes. “They help us reach new customers and develop new markets for our products and services. Quite frankly, they extend a credibility to us for their members that we might never achieve on our own.”

Key to successful alliances is the willingness of both parties to innovate and develop pilot programs and approaches, drop those that don’t work, and focus on results, Dulan says. Clearly, there are numerous intangible benefits from such relationships, but increasingly businesses are defining results in more tangible terms, such as increases in sales of products or services.



Community Developments

The Community Affairs newsletter from the Office of the Comptroller of the Currency

Editorial Staff:

Anna Alvarez Boyd
Barry Wides
Bill Reeves
Maury Zeitler

Editorial Advisory Committee:

Nan Goulet
Peggy Hesse
Glenda Cross
Bud Kanitz
John Farrell
Susan Howard

Designer:

Cheryle Robison

Questions or comments, please phone (202) 874-4930. Previous editions available on our Web site: www.occ.treas.gov/cdd/resource.htm

Disclaimer:

Articles represent views of outside authors and are not necessarily the views of the OCC.

Cover image provided by Bank of America in conjunction with its Strategic Alliances Initiative.

Continued on page 5

Growing Diverse Banking Markets —

Going Beyond Traditional Measures

by John D. Hawke, Jr.,
Comptroller of the Currency

Many of us grew up learning that the United States is a cultural and ethnic “melting pot” — a term that gained currency with the great waves of immigration in the late 19th and early 20th centuries. The notion was that all of us, somehow, no matter where or how we started out, would interact to the point that our differences would no longer define us. We would be “Americanized.”

Of course, we have discovered that it doesn't quite work that way. Differences endure. We're perhaps better off thinking of the nation as a stew, in which each ingredient gains something from all the others yet all retain their individual identity. Our diversity is to be celebrated, not glossed over.

And, as Census 2000 data show, we have more to celebrate than ever before. The nation is diversifying at a remarkable rate. Ten years ago, one of every five Americans was a member of a minority group; now the figure is one in four. The nation's Hispanic population has increased 58 percent since 1990. Hispanics now make up about 12 percent of the population, about the same as African-Americans, and Asian and Pacific Islanders now account for almost 4 percent of the population, up from 2.9 percent in 1990.

Census 2000 was the first to allow individuals to classify themselves as multi-

racial, and nearly 7 million Americans described themselves that way. With Census Bureau officials reporting that the number of interracial couples has quadrupled since 1990, it stands to reason that while only 1.9 percent of adults described themselves as multiracial, 4.2 percent of those under 18 so identified themselves.

Low-income communities may in fact have significant populations of wage-earners and small but potentially viable businesses in need of financial services. This is good news for innovative banks.

The data also confirm that racial and ethnic diversity, once primarily a characteristic of urban areas, has rapidly become a hallmark of suburbs and small towns. In Illinois, for example, there has been a marked decline in the number of towns described as 90 percent or more white: only 2.4 million people lived in such towns in 2000, compared to 3.7 million in 1990. Much of the dispersion of minorities is attributed to the spread of job opportunities, in both the high-paying high-tech sector and the predominantly minimum-wage service industries, as the economy grew throughout the 1990s.

Going beyond traditional measures

Diversity is clearly changing the face of urban America. Nearly half of the nation's 100 largest cities are now home to more minorities than whites.



Many major cities, including Boston, Los Angeles, and Dallas, would have lost population overall in the 1990s were it not for big gains in the number of Hispanics. In the 20 fastest-growing cities during the 1990s, the white population rose 5 percent, the African-American population 23 percent, the Asian population 69 percent, and the Hispanic population 72 percent.

Inner cities are all too often stereotyped as areas of limited opportunity because of stubbornly high levels of unemployment, underdevelopment, economic stagnation, and crime. The stereotypes need to be re-examined. Increasing diversification may in fact mean that inner cities — and lower-income areas in general — represent a more viable market than indicated by traditional demographic measures.

Social Compact — a nonprofit coalition of corporate leaders supporting private investment in cities — has developed a method of combining census and private marketing data with nontraditional sources to develop a more accurate picture of the economic strength of neighborhoods. Social Compact's methodology and findings are discussed in this issue. In essence, the organization has come to the same conclusion as have the financial institutions whose initiatives are highlighted in this issue of *Community Developments*: within a low-income area there may be a sizeable wage-earning population in need of a variety of financial services.

Continued on page 4

At A Glance

America's Increasing Diversity —

- The Hispanic population in the U.S. has increased 58 percent since 1990.
- Nearly half of the 100 largest cities in the U.S. are home to more minorities than whites.

Banking Opportunities in Underserved Markets

- From 1987 to 1997, the number of minority-owned businesses increased 168 percent, while revenues grew 343 percent and employment climbed 362 percent.
- Only two-thirds of minority-owned businesses used credit, compared to over three-fourths of all businesses.
- While the U.S. homeownership rate achieved an all-time high of nearly 68 percent in 2000, the rates for African-Americans and Hispanics remain below 50 percent. This gap represents approximately \$600 billion in potential home mortgages.
- Nearly 10 percent of U.S. households are unbanked and more than 60 percent of these households are minorities.

Potential markets for banks

Minority-owned businesses are a fast-growing segment of the U.S. economy. By 1997, there were an estimated 3.25 million minority-owned businesses in the U.S., generating \$495 billion in revenues and employing nearly 4 million workers. From 1987 to 1997, the number of minority-owned businesses increased 168 percent, while revenues grew 343 percent and employment climbed 362 percent.

Although this is significant growth, there is still a large gap between the percentage of whites who own small businesses compared to African-Americans and Hispanics. The Small Business Administration reported in 1998 that only 6 percent of the 10.3 million individuals who reported self-employment as their primary occupation were Hispanic and only 5 percent were African-American. In contrast, African-Americans and Hispanics each account for 12 percent of the population.

That there is room for banks to serve these markets is suggested by the fact that minority-owned businesses report less use of credit overall — and bank credit in particular — than do other businesses. The most recent *National Survey of Small Business Finances* found that only two-thirds of minority-owned businesses used credit, compared to over three-fourths of all businesses. While almost 37 percent of all businesses used bank credit, only 15 percent of African-American-owned businesses and 27 percent of all minority-owned businesses did.

Homeownership presents a similar challenge. On the one hand, there has been tremendous growth in homeownership among African-Americans and Hispanics. The number of conventional home purchase mortgages made to each of these groups more than doubled from 1993 to 1999, while the number made to whites rose by only 42 percent.

Nonetheless, although the U.S. homeownership rate achieved an all-time high of nearly 68 percent in 2000, the rates for African-Americans and Hispanics remain below 50 percent. The gap between these homeownership rates represents approximately \$600 billion in potential home mortgages, a sizeable market opportunity for banks.

Reaching out to the unbanked

At a more basic financial level, nearly 10 percent of American households are unbanked, they do not have a deposit account at a financial institution. More than 60 percent of these households are minorities. Many of these Americans use financial services to meet the same needs as their banked counterparts — cashing checks, paying bills, borrowing money, and sending funds to family and friends. However, they obtain their financial services from institutions such as check cashing outlets, post office branches, corner stores, and supermarkets. Clearly there is an opportunity here for banks to meet this demand and, in so doing, to bring more people to mainstream financing and its multiple advantages.

The challenge for banks is to develop products and services that meet the changing needs of our increasingly diverse communities.

National banks have been leaders in efforts to identify the various financial needs of our increasingly diverse population, and have developed a variety of initiatives and programs to meet these needs. We highlight a number of these efforts in this issue. We focus not only on how banks are successfully designing programs that create the breadth and depth of financial products and services needed by diverse populations, but also on how some institutions go beyond meeting basic needs, developing



programs that enhance the overall viability of the communities served.

Leading banks are making a similar commitment to diversity in their workforces, for one overarching reason: it makes them better businesses. *Fortune* magazine, reporting on the 50 best companies for Asians, African-Americans, and Hispanics in its July 1999 issue, found that the winners had collectively outpaced the S&P 500 Index over the preceding five-year period. Banks find that a diversified workforce tends to generate a wider range of innovative products and services. And it stands to reason that a diversified workforce will have greater success in reaching out to a diversified market.

This issue of *Community Developments* begins with a discussion and overview of the needs of diverse markets and how the financial industry is working to address these needs. Subsequent articles describe products that

meet the immediate liquidity needs of lower-income Americans and initiatives that support women-owned businesses. We outline the basics of Special Purpose Credit Programs and explore policy and



*Union Bank of California's Cash & Save stand-alone center
(See article on page 8)*

regulatory issues that banks should consider when developing such programs.

Partnerships between banks and community organizations are at the heart of

much of what is being accomplished in meeting the needs of diverse populations. For example, we describe a partnership that helps a bank make affordable mortgages and small-business loans available to underserved communities. We look at how an international micro-lending organization has partnered with financial institutions across the nation. And we examine partnerships that banks have successfully developed with leading faith-based community development organizations.

It is often said that addressing diversity can be the greatest challenge to an organization's success. My hope is that the initiatives outlined in these pages will stimulate bankers, community organizations, and government agencies to continue developing products and services that meet the financial needs of the increasingly diverse and culturally rich communities in which we live and work — in short, to make an asset of diversity. ■

Bank of America Strategic Alliance *continued from page 2*

An example of such an alliance is the work that Bank of America is doing with the National Association for the Advancement of Colored People (NAACP). Sharing the common goal of increasing economic opportunities for minorities, especially in low- and moderate-income areas, the two organizations have worked together for nearly 10 years. Last year Bank of America and the NAACP announced a new five-year, \$6 million initiative to help increase homeownership among traditionally underserved populations and to increase small business loans to businesses serving urban communities.

“This alliance is one small step toward helping to create economic empowerment for underserved populations,” says Kweisi Mfume, NAACP president. “When people can get mortgages and loans for small businesses, they improve not only their lives but also the overall well-being of the community.”

The homeownership program is a joint effort between local NAACP branches, the national office of the NAACP, and Bank of America. NAACP local offices provide marketing outreach to the communities they serve and encourage participation in homeownership workshops led by Bank of America mortgage account executives. The Bank of America Homeownership Center provides follow-up counseling and assistance

in reviewing finances, identifying and making recommendations on resolving credit issues, and completing a mortgage application.

“We believe that this grassroots approach will help more people realize their dreams of homeownership,” Dulan says. “Buying a house can be intimidating to even financially savvy individuals, and it can be especially challenging for a first-time homebuyer. These workshops help remove some of the anxiety about what is perceived to be a complex process — finding a home, making an offer, and applying for a mortgage. Knowledge is a powerful tool in minimizing anxieties about buying a home.”

Continued on page 6

MEASURING SPENDING POWER IN LOW-INCOME COMMUNITIES: SOCIAL COMPACT'S NOVEL 'DRILL-DOWN' APPROACH

by Sam Frumkin, *Community Affairs, OCC*

Communities that are defined as “low-income” according to census data may have much more spending power than the data suggest, and diversity can contribute to a stronger market than the data would predict. These are among the striking findings of Social Compact, an unconventional market research organization that has developed new methods of evaluating the earning and spending power of inner-city communities.

Social Compact’s non-traditional, “drill-down” market analysis avoids standard market research tools such as phone surveys and interviews and door-to-door contacts. The organization’s analyses are predicated on the belief that these methods undercount those people

whose phones are unlisted or who rely on cell phones along with those who distrust intrusive questions from strangers and those encumbered by language barriers. The drill-down approach,

“Our goal is to assemble accurate market information that will support private investment in inner cities.”

— Lynn Reilly,
Social Compact President

in contrast, uses tax assessments, real estate transactions, automobile registrations, building permits, cable television and cellular phone billing addresses, and credit report addresses to build

a comprehensive profile of buildings, households, and occupants — in short, of a neighborhood.

Data to drive investment

“Our goal is to assemble accurate market information that will support private investment in inner cities,” says Social Compact President Lynn Reilly. The organization developed its methodology by studying spending patterns in four inner-city neighborhoods in Chicago. The initial research was foundation-funded, but analyses now under way in Houston and New York City are being sponsored by banks and corporations impressed with the Chicago analyses. FleetBoston found Social Compact’s Chicago findings so compelling,



Bank of America Strategic Alliance

continued from page 5

Strong beginnings

The homeownership program has been approved or launched in 10 communities: Atlanta; Austin; Baltimore; Columbia, SC; Greensboro, NC; Jacksonville, FL; Long Beach, CA; Memphis; Phoenix; and Washington, DC. Five additional cities will be selected in the coming months.

“Investing in community development is, quite simply, a business imperative. Either we seize the market opportunity before us or someone else will.”

— Michael H. Dulan, Bank of America
President of Community Development Banking

Although the program is still in its early stages, more than 200 people have already participated in workshops and nearly 150 clients are receiving counseling from the Homeownership Center. Five loans have closed and nearly 90 clients are considered mortgage-ready now or within the next few months.

“The interest in the workshops and in working with our Homeownership Center demonstrates a very real and deep interest in learning more about what it takes to become a homeowner,” Dulan says. “Certainly we think the service we’re providing to these participants is of great value to the community. But we’re also enthusiastic about the opportunity of bringing more business to the bank. At the end of the day, we’ll judge our success on how many people we have helped to put into homes with Bank of America mortgages.”

In addition to the homebuyers initiative, NAACP chapters will also hold small business workshops in conjunction with Bank of America and the Service Corps of Retired Executives (SCORE). Sessions may focus on topics such as developing business plans, investing and financial planning, marketing strategies, small-business accounting, loan packaging, retirement planning, and employee training. “Collaboration is the key to successfully addressing the community development needs of any community,” Dulan notes. “The small business portion of this initiative is a good example of drawing upon the expertise of the NAACP, the bank, and SCORE to reach business owners or those interested in starting a business.”

For more information, contact Tish Gonzalez, Senior Vice President, Community Development Banking: (214) 209-3238.

Reilly says, that the bank decided to sponsor a drill-down analysis in Harlem. Other banks have shown interest in using drill-down data to locate additional ATMs and to develop new small business lending efforts.

To assess spending power, Social Compact looks beyond reported income and standard income/expenditure models. When there is a high percentage of households with reported income below \$30,000 per year, the drill-down incorporates variables such as the number of check cashers, bill payment patterns (cash vs. check), actual instead of modeled housing costs, and the percentage of households without documented credit histories. Social Compact argues that the use of these variables is crucial to accurately assessing spending power of low-income areas, since the organization’s research has found that in most cases households reporting \$30,000 or less in income actually spend more than that amount.

Capturing diversity

A major finding in each city studied thus far is that an area commonly thought of as “a low-income neighborhood” is in fact likely to be a highly segmented market with wide variations in income, housing prices, spending power, and cultural assimilation. Reaching these mar-

kets effectively can thus be a challenge. Banks seeking to serve them effectively — and profitably — need meaningful data to support sound business decisions.

Traditional market analyses typically use census data as a starting point. Reilly argues that although this approach may be accurate enough in many middle- to upper-income suburban communities, it shortchanges inner-city markets, in part because the census significantly undercounts immigrants — particularly those who are undocumented. With conventional data failing to capture the actual diversity of inner-city neighborhoods, their potential as markets is undervalued. By more accurately measuring population trends, Reilly says, drill-down analysis reveals hidden market strengths that can become important drivers of banks’ small business and home mortgage lending.

To illustrate, Reilly compares Social Compact’s drill-down analyses of four Chicago inner-city neighborhoods — Bronzeville, Marquette Park, Little Village, and Roseland — with 1990 and 2000 census data and with traditional census-based market analyses by a private market research firm. The differences in measured population gains or losses are striking.

Since each market that Social Compact has analyzed has a range of characteristics that define the area — including family size, race, ethnicity, and cultural assimilation — each drill-down is customized work. Reilly anticipates that patterns will emerge as drill-downs are completed in 15 to 20 markets. Social Compact’s report on the four Chicago neighborhoods was released last November. In addition to the work under way in Harlem and Houston, Social Compact is currently conducting drill-down analyses of the Petworth and Columbia Heights neighborhoods in Washington, D.C. The results of these analyses will be available from Social Compact as they are completed. Reilly offers some cautionary advice for banks and other organizations that are attempting to determine the true market power of so-called “low-income” neighborhoods but do not yet have access to drill-down analyses:

- Don’t rely on median income levels in the inner city, since these are highly segmented markets.
- Don’t base market analyses on zip codes, concentric rings, or drive times, since this will artificially blend market areas.
- Learn something about the structure of a target community by collecting data on school enrollment, English-as-a-second-language programs, building permit activity, real estate transactions, immigrant support organizations, and utility bill payment patterns.

Social Compact’s innovative research confirms much of what many banks have already learned: that diverse lower-income neighborhoods can generate good business. Just don’t view them through the same lens as mature suburban markets.

For more information, contact Lynn Reilly, President, Social Compact: lynn@socialcompact.org

Population Counts				
	1990 Census	2000 Census	Traditional Market	Drill Down
Bronzeville	82,174	75,171	85,369	111,306
% change		-8.5%	3.9%	35.5%
Marquette Park	96,561	121,136	87,175	165,812
% change		25.5%	-9.7%	71.7%
Little Village	58,983	65,351	66,203	92,444
% change		10.8%	12.2%	56.7%
Roseland	36,271	33,041	39,192	35,053
% change		-8.9%	8.1%	-3.4%

Union Bank of California — Brings Convenience Banking to Communities

by Richard C. Hartnack, *Vice Chairman, Union Bank of California*

There was a time when the primary business of banks was to meet the financial services needs of families and communities. This is still a key part of the mission of Union Bank of California, NA.

For almost a decade, the management team of Union Bank’s Community Banking and Investment Services Group has focused on creating business models in low- and moderate-income (LMI) communities that can benefit consumers, shareholders, and the economy. Union Bank’s evolving business models are comprehensive, encompassing facilities design, strategic location and pricing, innovative approaches to risk management, a mix of traditional and transitional products, technology, financial education, and active collaboration with community leaders and service providers.

More than 15 percent of American families living in major urban areas no longer maintain their principal financial relationship with a bank or thrift. Among lower-income and immigrant families, the incidence of unbanked households is significantly higher. On the other hand, the ubiquity of alternative or “fringe” financial service providers in LMI neighborhoods — such as check cashers, money transfer firms, money order companies, rent-to-own stores, pawn brokers, payday advance and sub-prime lenders — demonstrates that there is a significant demand for financial services in these communities.

This paradox creates a dual opportunity for the community and the traditional financial services industry. The challenge is straightforward: Can banks leverage the demand for services by formulating a strategy designed not

only to pursue financial service revenues but also to provide a servicing process that will enhance individual financial lifestyles, create new homeowners and business owners, and help communities become more self-sufficient?

The traditional banking model does not generate target rates of return in LMI communities. The high overhead of the traditional bank delivery platform is a big factor, but not the only one. Many LMI consumers do not find the traditional mix of bank services useful or attractive. They have experienced, or expect, difficulties with acceptance of personal checks for their day-to-day expenses. Others are inexperienced in handling checking accounts or, if they have immigrant status, may face legal and documentation problems in setting up accounts. They may also be reluctant, or unable, to borrow in larger amounts, for longer terms.

Union Bank’s approach

In 1993, Union Bank of California established its first “Cash & Save” office in Los Angeles, the beginning of a growing network of banking facili-

ties in LMI communities that offer a full range of check-cashing services, transitional banking products and mainstream consumer banking products at affordable prices. Transitional products, such as a \$10 opening-deposit savings account accompanied by money orders, help clients move from check-cashing to traditional checking, savings, and credit. Cash & Save has successfully transitioned approximately 40 percent of repeat check-cashing customers to traditional bank product usage. Financial education has been a key part of the initiative’s of Cash & Save success. In collaboration with community based organizations, schools, employers, and churches, Cash & Save managers conduct regular basic banking and economic literacy seminars.

In pioneering this hybrid check-cashing/banking initiative, UBOC’s primary challenge has been the strategic placement of Cash & Save facilities in the appropriate distribution channels. We experimented with Cash & Save facilities in a variety of venues in both urban and rural communities: in existing branches, in stand-alone check-cashing stores offering banking services, in retail and warehouse grocery store locations, and even in a



FRINGE LENDING IS REAL MONEY		
SERVICE	ANNUAL VOLUME OF TRANSACTIONS	ANNUAL GROSS REVENUES
Check Cashing	180 million	\$60 billion
Payday Loans	55-69 million	\$10-13.8 billion
Pawnshops	42 million	\$3.3 billion
Rent-to-Own	3 million	\$4.7 billion
Auto Title Lenders	N/A	N/A
Total	280 million	\$78 billion

Source: Fannie Mae Foundation

laundromat/multi-retail setting where several businesses share a common lobby. Then our challenge was to expand this model at a reasonable pace, with minimal capital expenditures, in high-volume distribution channels.

Although transitional products and financial education were critical to the success of our Cash & Save initiative, we could not have succeeded without active community involvement and support. Part of our challenge, then, has been to identify exceptional community-based partners that can take a central role in transitioning check-cashing customers to mainstream banking.

In March 2000, UBOC entered into an innovative new financial services model in alliance with Navicert, Inc. (*dba* Nix Check Cashing), a leader in the check-cashing business, and Operation HOPE, Inc., a premier non-profit provider of financial education in Los Angeles LMI neighborhoods. This precedent-setting partnership linked UBOC with a reputable 34-year-old check-cashing firm with 47 locations and more than 600,000 customers and with a community-based organization able to provide financial counseling and education to 60,000 participants. The underlying hypothesis was that UBOC could increase returns on invested capital by strongly linking banking services to check-cashing and financial education programs, while offering LMI families a needed and useful line of products in a safe and convenient environment.

Today ATM services, consumer deposits, loans, small business products, and educational programs are delivered to individuals and families through Nix trained staff supported by bank technology. The economic magic of this model is that the fixed cost investment, already covered by the income from the check-cashing service, is now leveraged by banking products. By over-

laying financial education programs in homeownership and entrepreneurship, the model contributes to individual wealth accumulation and helps create thriving, stable communities. This is truly a two-plus-two-equals-more-than-four proposition in which everyone wins — consumers, shareholders and the economy.

Challenges and caveats

Experience has taught us that the major constituencies involved in community economic development must each accept certain roles and responsibilities if efforts to promote needed products and services in lower-income communities are to succeed:

- Consumer advocates should focus on ensuring that consumers have full information and, once properly informed, full freedom of choice.
- Legislative representatives, regulatory officials, and consumer activists need to understand that products and services can only be offered successfully in an environment that allows the provider to make market returns on invested capital. Charging prices that fairly reflect the full cost of doing business makes it possible to offer, *on a sustainable basis*, the best products and pricing to the consumer. Absent such returns, capital will flow away from this market segment, diminishing the services, convenience, and quality of service available to lower-income households. Proposals for legislated controls on pricing or terms of service must be analyzed carefully to ensure that short-term political goals do not prejudice the longer-term goal of availability of services.
- Innovation requires a flexible regulatory environment. Although regulators must, of course, be concerned with the safety and soundness of any banking initiative, and with protect-

At A Glance

Growth of Fringe Banking —

- In the past five years, the number of check cashing centers has doubled, and payday lending grew from 300 to 8,000 stores between 1993 and 1999.
- An April 2000 report shows that 11,000 check cashing outlets generate \$60 billion in business annually.
- The estimated 13,000 pawn shops in the U.S. outnumber credit unions and banks.
- In 1996, an estimated 8,000 rent-to-own stores served 3 million people, grossing \$4.7 billion.

Source: Fannie Mae Foundation

ing consumers against abuses, the oldest of roadblocks — “We’ve never done it this way” — should not be allowed to stand in the way of innovative efforts to serve the needs of lower-income communities, particularly if the initiating institution has a well-established track record.

UBOC has long recognized the value of welcoming everyone to a place at the table. Last year the bank received the Department of Labor’s highest honor for outstanding employment practices, the *Opportunity 2000* award, for its long history of promoting diversity both in its workforce and in its customer base. And two years ago *Fortune* magazine ranked UBOC first in its annual ranking of “The 50 Best Companies for Minorities.” UBOC edged out many of the nation’s largest

Continued on page 10

The Four “Cs” to Serving A Diverse Community

by David C. Reiling, *President, University National Bank*

Although University National Bank is one of St. Paul, Minnesota’s smallest banks, with only \$35 million in assets and 20 employees, our mission is to be the leader in improving our urban community. When the bank was purchased in 1995, it had \$14 million in total assets and a “needs to improve” Community Reinvestment Act (CRA) rating: only 14 percent of the bank’s loan portfolio was in its CRA assessment area. Today the bank has an “outstanding” CRA rating with 79 percent of its loans in its CRA assessment area, and was recently designated as a Community Development Financial Institution by the Treasury Department. The bank is located in St. Paul’s inner city, in a neighborhood known as Frogtown, two blocks west of the state capitol. Frogtown is St. Paul’s lowest-income neighborhood, and is racially mixed, with a heavy concentration of Southeast Asian Americans (Hmong, Vietnamese, and Cambodian). Hmong

account for about 35 percent of the bank’s customers. The bank has made a conscious effort to diversify our staff to reflect our community, and currently 25 percent of the staff come from the Asian Pacific community.

We need to know our community and its residents firsthand. The only way to understand our community is to immerse ourselves in it.

We have identified four priority concerns — or, if you will, the four “C’s” to the future of the community and the bank:

Cash

The Frogtown community understands cash. To many first-generation immigrants (who are usually refugees), cash is king. As a result, check-cashing stores are prevalent. To combat this,

University National Bank purchased a check-cashing business, cut its fees in half, and placed it in the lobby of the bank. This enabled us to begin guiding check-cashing customers into mainstream banking. We also created a partnership with a nonprofit organization to educate our customers on the basics of how to handle a checking and savings account.

Capital

Access to capital is critical to the development of an urban, racially diverse, low- to-moderate income community. Experience tells us that both the commercial corridors and the residential areas surrounding them need to be developed simultaneously. To that end, the bank has created several loan partnerships to share credit risk and get capital into the hands of community businesses and residents.

- **Neighborhood Lending Partnership (NLP):** A loan guarantee pro-



Union Bank of California

continued from page 9

employers. Last year the bank ranked sixth overall and first among banks.

With its strong foothold in the Cash & Save business and its investment in the Nix and Operation Hope alliance,

Union Bank is poised to capture a significant share of the LMI individuals and families who are ready to be mainstreamed into the banking system. We are confident that we can earn target returns on this business and lead a resurgence of interest in providing valuable

banking services to lower-income families right where they need it — in their communities.

For more information, contact Yolanda Brown, Senior Vice President and Manager of Cash & Save Administration: (213) 236-5700 or www.uboc.com.

Moving into the Mainstream

Lillian and Joaquin Cuadras, like many lower-income blue-collar families, lived week-to-week on Joaquin’s paycheck and relied on check-cashing services. Two years ago, that situation changed through a Union Bank Cash & Save branch. The Cuadrases started by opening a no-fee savings account, went on to establish a checking account, and now hold a CD account as well. Their children have Junior Bankers’

Savings Club accounts. By attending Operation Hope’s Banking on the Future program, the Cuadrases have learned about money management and are now teaching it to their children. Lillian Cuadras says that turning banking into a family affair has helped raise her entire family’s self-esteem.

Juan Recinos, a Nix employee hoping to become a homeowner, became aware of the service offerings available through his com-

pany’s alliance with Union Bank and Operation Hope. Shortly after attending a homeowner’s educational program, his mortgage application was approved. Juan’s slice of the American dream is just a part of the larger success story evidenced by the thousands of business transactions that have already taken place at the three Nix store pilot locations in South Central Los Angeles.

— **Union Bank of California**

gram provided by the City of St. Paul through University National Bank to promote real estate acquisition and renovation and the purchase of equipment for neighborhood businesses. Loan guarantees are available for up to 50 percent of a

project's cost, to a maximum dollar amount of \$100,000. The NLP program allows businesses and residents greater access to bank loans by reducing the amount of downpayment (equity investment) required. Via the NLP program the bank has made 53 loans over two years and leveraged the city's \$625,000 in loan guarantee funds by more than 700 percent, to a total \$4,769,810 in bank loans, which have resulted in the rehabilitation of 64 housing units (single-family dwellings and rental units) and 16 commercial buildings.



Before and after photos of Hmong community center.

nesses and residents. Loans and grants are being provided by the City of St. Paul and the Selby Coalition through University National Bank to promote exterior renovation along the avenue. Grants of up to \$10,000 are available with a matching bank loan. The program also provides loan guarantees to the bank to increase access to capital.

Communication

We're in the business of making loans. A good loan improves the well-being of the borrower, the bank, and the community. Conversely, a bad loan sets us all back. We need to know our community and its residents firsthand. The only way to understand our community is to immerse ourselves in it — and listen to it.

Each bank officer works closely with at least one local not-for-profit organization. The bank provided 618 hours of service to community organizations in 2000. Through community involvement, our officers participate in the diversity of the community and receive unfiltered real-time information that helps us anticipate and respond to community needs and concerns. And community involvement gives our lenders working knowledge of community loan and grant programs. The more our lenders know about these programs the more likely they are to create financing solutions that get capital into the hands of our community.

There is, in short, no substitute for immersion in the community.

It fosters trust, respect, and a greater comfort level between people of different cultures and the bank — all of which, not coincidentally, brings new business to the bank.

For more information, contact David C. Reiling, University National Bank: (651) 265-5627 or e-mail: david@universitybank.com

- **Frogtown Large Loan Fund:** University National Bank is a member of a five-bank lending consortium that loans money to businesses in Frogtown that do not meet traditional bank underwriting guidelines. Loan terms are structured to meet the needs of the business customer. This loan fund provides a way for non-bankable businesses to access capital.
- **Selby Exterior Loan and Grant Program:** Selby Avenue is a redeveloping commercial corridor with a troubled history and a mix of African-American and other busi-

Confidence through commitment

The community has to believe that it can become a better place to live and work. The bank has an important role to play in cultivating that kind of confidence — and we have demonstrated our own commitment by investing \$1.5 million in renovating our building. We wanted to send a clear message to the community that we're committed to serving its needs and that we're here for the long term. Besides, if we're going to continually encourage others to improve their properties, we have to be proud of our own.

Fleet's Competitive Advantage: 'The Connection'

by Sidrah R. Jackson, Vice President, FleetBoston Financial Corporation

Long before marketing to women-owned businesses was in vogue, Teresa Cavanagh believed in empowering women. Teri, now a senior vice president at FleetBoston and director of the Women Entrepreneurs' Connection — "the Connection," for short — was inspired by growing up in Seneca Falls, NY, site of the 1848 convention that launched the women's suffrage movement. An entrepreneur before becoming a banker, Teri launched the Connection in 1998 after concluding that "women trying to grow their own businesses need a central place to get connected with money and to learn what to do with it."

A believer in the power of networking, Teri did a lot of it before establishing the Connection at BankBoston, prior to its merger with Fleet. She drew upon the resources of national organizations such as the National Foundation for Women Business Owners and worked with local women's business groups like the Alliance for Women Business Owners, Women's Enterprise Initiative (WEI), the Center for Women and Enterprise (CWE), and the Commonwealth Institute.

The Foundation has just recently released a study underscoring the need to target assistance to women entrepreneurs. The study (available at

www.nfwbo.org) found that women piloting fast-growth firms (firms achieving revenue or employee growth of 30 percent or more over the past three years) are less likely than men to have a commercial bank loan and more likely to be relying on personal debt — typically credit cards — to finance growth. They are also less likely to have experience with entrepreneurial role models.

Recognizing needs and opportunities

At the same time, women-owned businesses are clearly becoming major drivers of the economy. By the end of 1999, according to the Foundation, the nation's 9.1 million women-owned businesses accounted for 38 percent of the small-business marketplace, employing 27.5 million people and generating \$3.6 trillion in sales. Women of color owned 13 percent of women-owned businesses.


Recognizing both an unmet need and an opportunity to build strong partnerships with entrepreneurial women, FleetBoston last year committed \$2 billion to women-oriented financing and investment initiatives across the Northeast. The Connection offers streamlined access to debt and equity capital, and something more: access to a network of Connection Consultants who can help women entrepreneurs with

virtually any aspect of growing a business. The Connection's Web site (www.theconnection@fleet.com) also provides information on a wide range of topics including writing business plans and creating strategic partnerships with women's business organizations along

One participant summed up her experience in five words: "It took the fear away."

with a directory of technical assistance providers and a calendar of events.

The Connection is more than a useful tool for women entrepreneurs. It's a way to help improve the effectiveness of their networking skills by reorienting them more toward familiarizing themselves with accessing equity investment, coupled with expertise in how to make the most effective use of it. Particularly for women who are just beginning to learn their way in the world of growth financing, the Connection offers comprehensive information in an appealing, user-friendly format.

As the Connection continues to evolve, it's helping women to connect in a variety of intriguing ways. CWE now holds quarterly day-long training seminars, called "Turbo Days," at Fleet's headquarters in downtown Boston. 

At A Glance

Women-Owned Business Market Profile —

- Women-owned businesses employ 27.5 million people and generate \$3.6 trillion in sales
- 9.1 million women-owned businesses in the United States
- Women-owned businesses represent 38 percent of the small business marketplace
- 13 percent of women-owned businesses are owned by women of color

Source: National Foundation for Women Business Owners, 1999

Microlending: How ACCION USA Partners with Commercial Banks

by William Burrus, *President & CEO, ACCION USA*

Mauro Leija has worked with children in San Antonio for 13 years as a coach, special education teacher and daycare provider. In 1996, after ten years of being employed by others, he opened a daycare center of his own. But when Mauro went to commercial banks with a plan to expand his fledgling business, they couldn't help him.

"I needed working capital, but I had some past credit problems," he says. The loan officers told me, 'Be realistic — you can't get a loan. You have

no college diploma, no capital, no credit, no history with any bank.'"

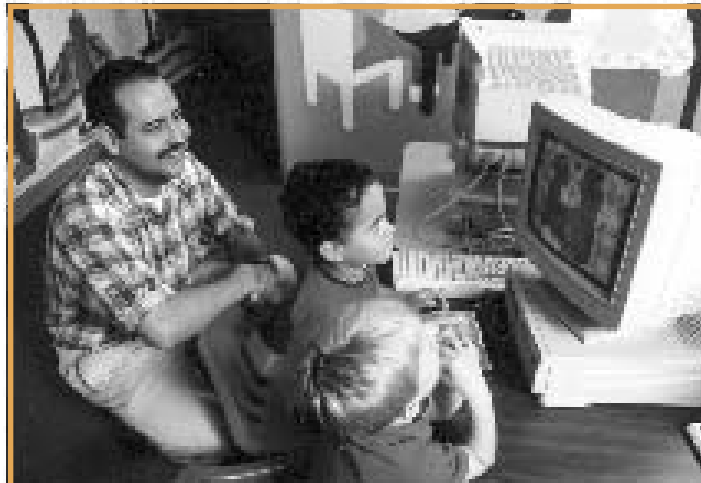
Mauro's experience is typical of other "micro-entrepreneurs" — low- and moderate-income women and men who start their own small businesses to support their families. A recent study commissioned by ACCION USA

found that 82 percent of the estimated 13.1 million micro-entrepreneurs in the United States have never received a bank loan. Of those, 86 percent had never applied for one, in many cases because of fears of rejection. Fourteen percent had applied but been rejected.

Looking beyond the credit record

Despite being turned down, Mauro managed to keep his daycare center going, and it soon began to turn a small profit. Always eager to improve his business skills, Mauro attended classes on budgeting, business planning and hiring at San Antonio's "Small Business Incubator," a Small Business Administration program. There he met a representative from ACCION Texas.

Part of the ACCION USA network, ACCION Texas provides business credit and training to people ineligible for traditional credit. ACCION's typically low- to moderate-income clients struggle to support themselves and their families by starting very small businesses such as food vending carts, home-based beauty salons or small neighborhood



Like many U.S. microentrepreneurs, Mauro Leija could not get a bank loan. Microlenders like ACCION USA provide business credit to low- to moderate-income individuals who start their own small businesses to improve the lives of their families.

Fleet's Competitive Advantage —

On average, over 50 women business-owners attend to hear inspirational luncheon speakers and to participate in learning tracks for finance, marketing, and business development.

The Connection often recommends speakers and seminar leaders and also designs and presents its own financial seminars, utilizing FleetBoston's credit and investment experts to teach women about topics such as analyzing financial statements and applying for credit. One such program, entitled "Takin' it to the Bank," simulated real-life situations involving applying for business loans. One participant summed up her experience in five words: "It took the fear away." In a nutshell, that's what Fleet's Women Entrepreneurs' Connection seeks to do: take the fear away and empower women business owners to move on and up.

For more information, contact Sidrah R. Jackson, Vice President, Women Entrepreneurs' Connection, FleetBoston Financial Corp.: (617) 434-4255 or sidrah_r_jackson@fleet.com

shops. ACCION USA has microlending programs in Atlanta, Chicago, New York, San Diego, and throughout New Mexico, and Texas.

ACCION Texas looked at Mauro's character and experience — not just his credit record — and provided an initial loan of \$1,500. The loan came at a critical point. Mauro used it to install air-conditioning ducts at the daycare center; without them he wouldn't have passed inspection and would have had to shut down. With a second loan he renovated the playground. A third loan helped him purchase a van to transport the children.

Micro-entrepreneurs like Mauro drop through the cracks of conventional financing for various reasons. Their credit needs are often too small for a bank to profitably lend to them. They typically have no credit history, a flawed credit history, little collateral or incomplete financial records. Women, ethnic minorities, and non-English speakers may face additional barriers. One New York micro-entrepreneur puts it bluntly:

Continued on page 14

ACCION USA

continued from page 13

“If you’re white, they help you more — they’re kinder.”

Accurate or not, these perceptions are part of the problem. But things are changing. To overcome barriers and reach out to greater numbers of micro-entrepreneurs, more than 30 commercial banks have formed partnerships with ACCION USA.

Partnering for change

ACCION USA was created in collaboration with ACCION International, a Somerville, MA-based nonprofit with nearly 30 years of experience in micro-finance in Latin America. Since its 1991 launch, ACCION USA has loaned \$30 million to more than 4,500 clients. The average loan is \$3,500.

Banks are an important source of funding for ACCION USA, and they make other contributions such as referring clients, co-hosting business training programs, donating office space and market intelligence technology, and playing a governance role.

Funding: ACCION USA is funded through commercial bank loans, donations, and the interest paid on its microloans. More than 30 banks have made loan capital available to ACCION USA, led nationally by Wells Fargo, Citibank, Chase, Bank of America, and by local banks such as First Bank of the Americas in Chicago and First State Bank in New Mexico.

For example, ACCION New York currently has a \$1 million line of credit from Chase. At prime minus one, this loan can be used as a typical line of credit or as a 100 percent guarantee for other credit initiatives. This allows ACCION to diversify its funding sources, particularly to include socially

responsible individual investors. Wells Fargo has recently announced a \$1 million line of credit at zero percent interest to ACCION New Mexico.

Referrals: ACCION and commercial banks have created formal channels to refer micro-entrepreneurs who wouldn’t qualify for a bank loan and who otherwise might not know that ACCION is



Callie and Gary Ford, who own a mobile Cajun restaurant, were turned down for a loan by their bank. But through an innovative partnership between ACCION USA and First State Bank, they were referred to ACCION New Mexico and received credit for their small business.

an option. Bank referrals to ACCION New York currently account for 25 percent of its client base. Chase, Bank of America, and Wells Fargo display and distribute ACCION promotional materials. BankOne’s Loan-by-Phone call center in Tempe, AZ refers clients to ACCION Texas and ACCION Chicago.

In New Mexico, three commercial banks Wells Fargo, First State Bank, and First National Bank — work closely with ACCION throughout the referral, underwriting, and loan disbursement process. Bank officers give potential clients ACCION loan applications, help them fill out the application if necessary, and send it to ACCION New Mexico, which then completes the loan documentation and credit underwriting. The bank closes the loan and actually disburses the funds to the client at the local branch. This has enabled ACCION New Mexico to expand its outreach to many smaller communities throughout the state without the cost of setting up new offices and hiring additional staff.

Collaborative Lending: ACCION Chicago has implemented an innovative joint lending program with First Bank of the Americas, a bank certified by the Treasury Department’s CDFI Fund. Because ACCION Chicago cannot make loans over \$25,000, some of its larger clients were having difficulty obtaining funds to grow. Under the joint lending arrangement, ACCION Chicago lends up to \$25,000 and First Bank of the Americas provides the rest. ACCION Chicago takes second position on the loan, reducing the bank’s risk exposure. Last year First Bank of the Americas provided over \$1 million in loans to ACCION Chicago clients through this partnership. Each of these new clients set up a business checking account with First Bank of the Americas.

Training programs: Financial training can be crucial to the success of microloan programs. ACCION USA, in partnership with several banks, offers seminars on topics such as financial literacy, starting and growing a business, inventory control and marketing.

Technology and infrastructure: Chase has provided extensive market mapping technology to ACCION New York. Using Chase’s data to identify areas of low bank penetration, diverse low-income populations, and high densities of small businesses, ACCION New York targets areas most in need of microlending services.

Eight of ACCION Texas’s satellite offices are housed rent-free in supporting banks, including Chase, Bank of America, and Wells Fargo — enabling ACCION Texas to grow by minimizing overhead expenses.

Governance: Banks play strong leadership roles on boards of directors and volunteer committees at all



Citibank's Diversity Strategy:

A Systemwide Initiative and Strong Community Partnerships

by Helen Steblecki, *Director of Communications, Citigroup*

Where there's a will, there must be a way. Citigroup and its member companies, which include Citibank and CitiMortgage, have the will to provide financing to low- and moderate-income individuals. The problem, sometimes, is finding the way. Part of the solution is to make outreach a systemwide priority — and part of the solution is to build strong “on-the-ground” partnerships in the communities we want to serve.

The Emerging Markets Initiative

CitiMortgage's Emerging Markets Initiative, in operation since 1998, is a systematic effort to better serve historically underserved households and communities in Citibank service areas, with

a particular emphasis on serving lower-income African-American and Hispanic households.

Broadly speaking, Emerging Markets seeks to heighten awareness internally (among CitiMortgage sales and other officers) and externally (among retail and other organizations that deliver loans to CitiMortgage). Functionally, Emerging Markets cuts across and interacts with all other sales channels, creating a systemwide focus on the importance of developing new products and programs and creating strategic alliances.

The initiative relies in large part on Business Development Officers (BDOs) with experience in reaching underserved

communities. They partner with fellow sales representatives to channel more loans to emerging markets. For example, the BDO for upstate New York may identify a real estate professional who does business in lower-income and/or minority communities, and may then collaborate with the professional and a retail-lending consultant to establish a relationship to refer prospective customers.

Each BDO has a set of goals linked to his/her compensation, as do other sales representatives with whom the BDOs work. We believe that clear goals linked to compensation are good motivators and a good indicator of Citibank's commitment to serving previously underserved communities.

Emerging Markets undertakes a variety of marketing and sales initiatives, with BDOs taking the lead in identifying local affordable-housing government

Continued on page 16

ACCION USA *continued*

ACCION programs. For example, a Citibank officer chairs ACCION Texas's board, and a La Salle Bank officer chairs ACCION Chicago's board. Bank employees also serve on loan review committees at several ACCION USA sites.

How banks benefit

Banks have found partnering with ACCION USA to be an effective marketing strategy while satisfying Community Reinvestment Act (CRA) requirements. Partnering helps raise a bank's profile in communities where it may have had little presence or even a negative image. Partnering also builds bridges to the Hispanic and African-American minority groups that comprise 82 percent of ACCION USA's borrowers.

Many ACCION clients are potential future bank customers. Developing a

solid credit history prepares many clients to move to mainstream financing. Meanwhile ACCION borrowers — particularly those who make their monthly loan payments at the bank — are introduced to banks and the services they provide.

Banks have found partnering with ACCION USA to be an effective marketing strategy while satisfying Community Reinvestment Act requirements.

Banks can also see that microlending makes a difference. With just two microloans each, 203 ACCION clients increased their business assets by an average of 51 percent, business revenue by 37 percent and take-home income by 40 percent over a two-year period.

And microlending can be sustainable. Currently, each ACCION USA program covers between 25 and 50 percent of their own operating costs by revenue directly generated from microloan fees and interest. The remainder of operating costs are covered by contributions from banks, corporations, foundations and individuals. The ultimate goal is to reach 100 percent self-sufficiency.

The power of microlending, as banks are discovering, is that it isn't charity. Instead of creating dependency, it fosters initiative, supporting people like Mauro Leija who make a clear contribution to their communities — even if they don't have a perfect credit history. Microlending is good for banks because it is good for the communities they want to reach and for the future customers they hope to attract.

For more information, contact William Burrus, ACCION, USA: bburrus@accion.org

subsidy and bond programs that CitiMortgage can participate in to help reach first-time homebuyers. Last year, for example, CitiMortgage entered a five-year partnership with Fannie Mae, with CitiMortgage originating and Fannie Mae purchasing \$12 billion in lower-income home loans. The first-year goal of \$800 million was promptly exceeded, with Fannie Mae purchasing \$1.2 billion from within CitiMortgage's service areas.

CitiMortgage has also entered into a strategic alliance with the WOW (With Ownership, Wealth) Initiative in association with the Congressional Black Caucus Foundation (CBCF). CBCF is leading an effort with several lenders, community and faith-based organizations, trade groups, Fannie Mae, Freddie Mac and others to put a million more African-American families into homes of their own by 2005. This program, although national in scope, will be delivered locally with the help of Black Caucus members. Its goals include greatly increasing awareness of the benefits of homeownership and providing homeownership education and credit counseling to spur the rate of homeownership in the African-American community.

Going local

By building strong partnerships at the citywide and neighborhood level with not-for-profit organizations, Citigroup reaches out to more potential clients and helps provide the financial products and services they need to move up the economic ladder. Citigroup provides its community partners with a comprehensive array of services, including grants, financial education programs, customized business services, management expertise and technical assistance, and employee volunteers.

Our partnership with the New York Association for New Americans, Inc. (NYANA) is a good example. In 2000, the Citigroup Foundation awarded

NYANA a \$100,000 grant to be used for market research and program planning.

NYANA is a multi-service nonprofit that provides social, legal, health, education and business services to individuals, families, and communities. Founded in 1949 by the national leadership of the American Jewish Community to assist World War II victims of Nazi persecution, NYANA today provides services to foreign-born residents of all nationalities, as well as native-born Americans who face many of the same societal and economic challenges. Over the years NYANA has helped more than 500,000 refugees and immigrants of all faiths and ethnic backgrounds build new lives in America.

By building strong partnerships with not-for-profit organizations, Citigroup reaches out to more potential clients and helps provide the financial products and services they need to move up the economic ladder.

Citibank first began working with NYANA in 1999, offering small business loans to immigrant and refugee clients through NYANA's Business Center for New Americans. The Business Center helps refugee and immigrant entrepreneurs start or expand small- to mid-sized enterprises by offering assessment, business and marketing plan development, assistance in applying for business loans, and counseling, training and technical assistance. The Business Center operates a revolving Micro-Loan Fund for eligible clients and works as a broker between aspiring entrepreneurs and mainstream financial institutions (such as Citibank), government agencies, and professional and business organizations that can help entrepreneurs obtain financing, resources, and greater knowledge of the marketplace. During fiscal year 2000, Citibank funded

ten Micro-Loan Fund loans totaling \$155,000 to immigrant entrepreneurs.

The Micro-Loan Fund program paved the way for Citibank's support of NYANA's Individual Development Account (IDA) Program, which encourages the development of regular savings habits and familiarity with American financial services among low-income refugees. NYANA's IDA program also provides intensive financial management and asset training and counseling, with a goal of increasing financial savings and investments to provide a sense of ownership and empowerment. In fiscal year 2000, Citibank/NYANA administered 167 IDA accounts held by individuals whose home countries span the globe, including the former Soviet Union, Tibet, Ethiopia, Eritrea, Bosnia, Kosovo, Iran, and Haiti.

The Citigroup/NYANA partnership offers an excellent opportunity for Citigroup to offer education and services to the growing immigrant community. NYANA's history and expertise in providing culturally sensitive and linguistically appropriate services are major assets for Citibank, since communication, marketing, and negotiating don't always translate easily across cultural lines. For their part, immigrant individuals and families are attracted to the idea of saving money and gaining access to products and services that they would not have otherwise considered affordable.

Serving previously underserved populations and communities is a complex challenge for which there can be no single all-purpose strategy. Citigroup's approach is to work at both the macro level — through national partnerships — and at the micro level, forming partnerships with strong community-development nonprofits that pay off in new relationships of trust with new homeowners on their way into the economic mainstream.

For more information, contact Helen Steblecki: helen.steblecki@citicorp.com

Embracing Diversity Helps Lenders See — and Succeed in New Markets

by Maria Johnson, *Vice President for Diversity and Work-Life, Fannie Mae*

California is now officially a “majority minority” state. The latest Census 2000 data confirm that no single racial or ethnic group represents more than 50 percent of the state’s population. In other words, minorities are in the majority, accounting for most of the state’s consumers and its employment base. For any bank or other corporation doing business in California — whether marketing to Californians or seeking to hire them — the message could not be more clear: Ignore diversity at your peril.

Or, to put it more bluntly: Don’t embrace diversity just because “it’s the right thing to do.” Embrace it because it’s the right thing to do for your bottom line.

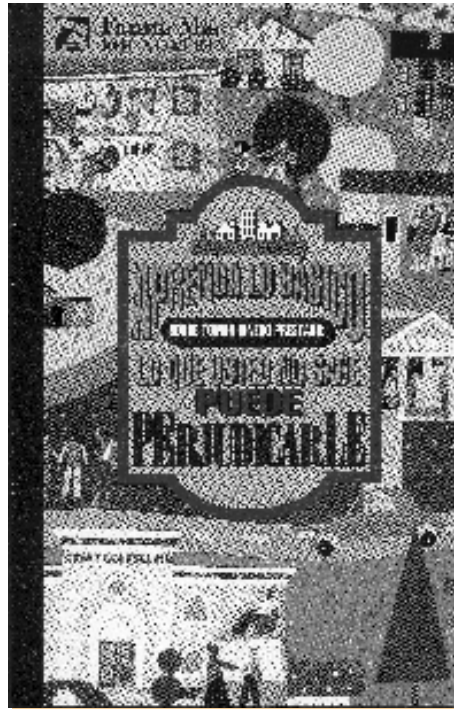
As usual, California leads the nation, but it’s clear that minority groups, including recent immigrants, are significantly changing the face of the nation, both in urban and rural America. Companies in the banking and financial services business face a real challenge in reaching out to minority consumers.

Many have different perspectives than traditional customers. They may distrust financial institutions. They may have language difficulties. They may not meet conventional credit requirements. They may be unfamiliar with the mortgage process and affordable mortgage products that might help them reach their dream of homeownership. Organizations that understand and embrace diversity as a core value will be better positioned to work with these new customers and to help them succeed and prosper.

More than lip service

At Fannie Mae we believe that diversity generates innovation and change. We also maintain that diversity infuses

energy and excitement into the workplace. For these reasons, we see diversity as a competitive business advantage and actively seek to create and maintain a workforce that mirrors the society we serve.



Fannie Mae Foundation's Spanish language borrower education brochure

Internally, we’ve tried to create a culture that sees diversity as a business imperative. And to ensure that our commitment to diversity is more than lip service, we’ve established clear goals to increase the ratio of minorities in our management group, and we tie our leaders’ compensation to how well their respective business units reflect the diversity we seek. Most importantly, however, we’ve worked hard to create a culture that encourages leaders to view differences as assets rather than liabilities.

Fannie Mae is in the business of facilitating homeownership. The U.S. has achieved a record homeownership rate — approaching 68 percent nationwide

—and some have opined that the nation has reached the pinnacle of homeownership and can afford to scale back pro-homeownership efforts. We disagree. We’re concerned about the gap between the 74-percent homeownership rate for white families and the under-50-percent rate for minority families, lower income families, young families, women-headed households, new Americans, and other groups, especially in urban areas seeking housing-based renewal. We see that huge gap as a real challenge to anyone committed to diversity — and a real opportunity for anyone who wants to serve the enormous market that diversity represents.

We’ve issued a call to action to our partners and others interested in lowering the barriers between underserved families and mainstream mortgage finance. In upholding our mission to increase homeownership opportunities for low-, moderate-, and middle-income Americans, we’ve worked to develop a host of new products and partnerships that help lenders reach underserved markets.

We’ve also worked with our lender partners to provide access to these new markets through very-low-down-payment loans, options for borrowers to avoid high-cost subprime lending, special community lending products for financial institutions, targeted investments in urban renewal plans, and joint ventures with faith-based organizations, the National Urban League, and other affinity groups. Fannie Mae’s American Dream Commitment, announced just over a year ago, is our pledge to provide \$2 trillion in financing to close the homeownership gap.

Backing up our commitment

To back up that commitment and to help improve services to underserved areas,

Continued on page 18

Q: What's New about Faith-Based Community Economic Development?

A: Nothing. And That's the Good News.

by Roy O. Priest, *President, National Congress for Community Economic Development*

It's said that when a community is really down on its luck, the only things left are the churches and the bars.

Bars don't have much of a track record in community economic development. Faith-based institutions, on the other hand, have long since demonstrated their importance to community stabilization, recovery, and growth. The national attention being paid to them now is welcome, and in some respects long overdue. But it's a testimonial to them that for years they've been on the job every day, making a major impact locally whether anyone at the national level or in the media noticed or not.

Working with churches, mosques, and synagogues, the nation's more than 500 faith-based community development corporations (CDCs) build new, attractive housing; develop commercial and industrial spaces; and provide skills training and job placement services. Frequently operating in African-American and Hispanic communities with high rates of poverty and disinvestment, they take a holistic approach, often providing after-school programs, loan funds, senior housing, and in some cases charter schools.

Leveraging church resources

Typically operating in communities with

inadequate access to capital, jobs, public transportation, or educational opportunities, faith-based CDCs leverage church resources to bring private and public sector resources into their communities. Take, for example, the work of Bethel Lutheran Church in Chicago.

The riots of the 1960s, coupled with the outmigration and abandonment that followed, left Chicago's West Garfield Park community a shambles. Spurred by their faith, Bethel Lutheran Church members decided to fight for the future of their primarily African-American community. They created Bethel New Life.



Embracing Diversity *continued from page 17*

we're actively promoting diversity training. Our Office of Diversity, in partnership with our Housing and Community Development and Marketing divisions, set out in 2000 to develop a diversity training course for lenders. We call it Perspectives on Diversity in Mortgage Lending. Our thinking went like this: We've experienced 14 consecutive years of double-digit growth (as of 2000), and since we attribute much of it to a highly diverse workforce, why not share our experience? So, in collaboration with a select group of lenders, we designed a course to help lenders understand the shift in demographics relative to the traditional housing market, and the necessity to adapt business strategies in order to maintain or increase profitability in this ever-changing, dynamic market.

The course is designed to promote a better understanding of the impact of diversity on each stage of the lending

process. Participants review current demographic trends in the mortgage market, study consumer protection regulations applicable to mortgage lending, reflect on the importance of the interface between a bank and its customers — such as ensuring that there's a reasonable probability of, say, a Latino homebuyer encountering a Latino mortgage loan officer — and review sensitive issues of bias whether real or perceived, along with assessing the myriad ways in which valuing diversity in lending practices makes sense economically as well as philosophically.

Perspectives on Diversity in Mortgage Lending received rave reviews from those who took the course as part of the Loan Production Track during the 2000 winter sessions of the Housing Finance Institute (HFI). This has sparked increasing interest and demand for the course, which is available to lender partners via our Housing and

Community Development division and to the public through the Housing Finance Institute. HFI has scheduled

We see diversity as a competitive business advantage and actively seek to create and maintain a workforce that mirrors the society we serve.

four courses during 2001. (For more information, phone (800) 243-5478 or visit www.FannieMae.com.)

“Eye-opening” is the phrase we hear most often from course participants. That's a good way to describe the whole process of understanding and embracing diversity. It opens up a whole new world of possibilities. And no one can afford to be blind to them.

For more information, contact Maria Johnson, Fannie Mae: (202) 752-6136 or maria_johnson@fanniemae.com

Faith-Based Lending *continued*

Since 1978, this faith-based CDC has earned a national reputation for pioneering initiatives that rely on human resources to stretch community develop-

ment dollars — for example by training local low-income people not just in carpentry but also in lead-abatement skills, thus enabling them to qualify for building-rehabilitation work. More than 900 rehabbed housing units — and a previously abandoned hospital, given new life as a community services center — stand as a testimonial to this approach. In 1999, Bethel New Life's \$8.2-million operating budget built 19 new homes and provided supportive housing services for 87 families; trained 222 local residents for job-readiness and placed another 195 in jobs; provided assistance in housing, nutrition, and health care for 5,073 mothers and children; provided case management services to 5,617 clients; and involved 1,165 community residents in community organizing initiatives.



Townhouse development built by Bethel New Life in Chicago

ment dollars — for example by training local low-income people not just in carpentry but also in lead-abatement skills, thus enabling them to qualify for building-rehabilitation work. More than 900 rehabbed housing units — and a previously abandoned hospital, given new life as a community services center — stand as a testimonial to this approach. In 1999, Bethel New Life's \$8.2-million operating budget built 19 new homes and provided supportive housing services for 87 families; trained 222 local residents for job-readiness and placed another 195 in jobs; provided assistance in housing, nutrition, and health care for 5,073 mothers and children; provided case management services to 5,617 clients; and involved 1,165 community residents in community organizing initiatives.

Partnering with banks

National banks have long been, and continue to be, critically important part-

ners for faith-based community development. National banks provide loan dollars, equity investments, grants, employment opportunities, and organizational connections that make eco-

- In Austin, TX, the Ebenezer Baptist Church, through its East Austin Community Development Corporation, has tackled the task of redeveloping one of the city's poorest neighborhoods. Bank of America is partnering with the CDC, providing an \$800,000 loan to leverage housing, daycare, and other projects.
- In Canton, OH, Key Bank and National City Bank are supporting a \$3.5 million housing project sponsored by the Association for Better Community Development (ABCD), a CDC founded in 1973 by a small African-American Methodist church. Using the Low Income Housing Tax Credit, the banks have invested in the Eastside Homes Proj-

ect, which will build 30 new homes and renovate 10 additional homes.

- In Washington, DC, and neighboring Prince George's County, MD, five banks including Riggs Bank and Bank of America are investing \$100 million in a partnership with 20 local African-American churches to build housing and strengthen community infrastructure.
- In Houston, TX, Wells Fargo, Northern Trust, Bank of America and Washington Mutual are part of a consortium supporting the Houston Opportunity Fund, which promotes housing construction and rehabilitation and business development in Houston's struggling Fifth Ward. The Fund, in turn, is the creature of a faith-based CDC, the Covenant Community Capital Association, an affiliate of Fifth Ward Redevelopment Corporation.

Working with churches, mosques, and synagogues, the nation's more than 500 faith-based community development corporations build housing, develop commercial and industrial spaces, and provide skills training and job placement services.

Faith-based CDCs are also active in many rural communities. In Embudo, NM, Siete del Norte, which has a longstanding relationship with the local Presbyterian church, is completing construction of nearly 100 new housing units for its Hispanic community. In Elkhart, IN, La Casa provides job training, social services, housing, and business development to primarily Hispanic low-income

Continued on page 20

REACHING THE IMMIGRANT COMMUNITY

by Siu Kwan Chan, *Asian Americans for Equality*

New York City — itself a dynamic testimonial to the power of diversity — has experienced a sharp rise in immigration from Asian countries in recent years, particularly from China, India, and Korea. Between 1980 and 2000, the city’s Asian-American population more than tripled, increasing from 230,000 to 800,000. Moreover, what is happening in New York is happening elsewhere in the nation, in a surge of immigration rivaling the vast European influx of the early 20th century.

Asian-Americans are strongly motivated, both by cultural tradition and ambition, to acquire homes. Unfortunately, however, Asian and other immigrants are likely to encounter significant barriers to affordable homeownership. These include:

- Unfamiliarity and discomfort with conventional financial institutions;
- Discriminatory practices that discourage prospective homebuyers;

- Predatory lending practices that result in higher-than-average downpayments and high interest rates;
- Language barriers that can cause confusion and delays in dealings with conventional mortgage lenders, encouraging reliance on “cultural brokers” as conduits — some of them legitimate business people, some not;
- Credit problems including the absence of conventional credit histories; and
- Problems with employment verification, either because the prospective buyer works in a restaurant or other low-paying cash-based industry or because the employer is wary of providing information.

Asian Americans for Equality (AAFE), a New York-based community development organization, and its affiliate, AAFE Community Development Fund (AAFE CDF), are working to eliminate barriers to homeownership in New York

and other cities with rapidly growing immigrant populations. AAFE and AAFE CDF staffs provide direct ser-

AAFE offers homeownership counseling services in Cantonese, Fukinese, Mandarin, Vietnamese, Hindi, Sindhi, Urdu, Khmer, and Korean, as well as Spanish — a testimonial to the organization’s commitment to reach underserved populations.

vices to low- and moderate-income homebuyers as well as training and assistance to other community development organizations operating in underserved neighborhoods.

Hands-on assistance

Working closely with our partners in the banking community, AAFE and AAFE CDF have substantially



Faith-Based Lending *continued from page 19*

constituents. La Casa has its roots in the Mennonite and other Protestant churches in this town of 28,000.

National intermediaries such as the National Congress for Community Economic Development (NCCED) support faith-based CDCs nationwide. A few years ago, Bank of America sponsored the development of NCCED’s Faith-Based Community Development Curriculum. The Biblical College of Houston has since formalized this curriculum and offers it as part of its regular programming. NCCED currently assists a network of more than 1,000 CDCs and other faith-based community organizations.

The McAuley Institute, another national intermediary, has faith-based roots. Founded by the Sisters of Mercy to provide loans and technical assistance to community groups promoting affordable housing, McAuley over the past 15 years has partnered with more than 2,100 groups and loaned over \$12.3 million at below-market interest rates. These funds have leveraged over \$103 million of total development in low-income neighborhoods. Loans and technical assistance from McAuley have helped to create more than 4,300 units of affordable housing in 48 states and the District of Columbia.

Faith-based community development institutions have an impressive record of commitment and accomplishment. But faith-based organizations, despite their connections to a higher power, can’t work miracles on their own. They need the capital — and expertise — that national banks can provide. In turn, faith-based CDCs can bring to the table their own long-established expertise in working with diverse populations to breathe new life into trouble communities. They’ve been there and done that — for years.

For more information, contact Carol Wayman, director of Policy, NCCED: (202) 289-9020 or <www.ncced.org>

Immigrant Community *continued*

expanded homeownership opportunities, providing hands-on assistance in the following areas:

- Pre-purchase underwriting and mortgage placement, including counseling, mortgage application intake, feasibility review, underwrit-

ownership readiness, credit counseling, initial mortgage underwriting and referrals to the member banks of the New York Mortgage Coalition, a consortium of nonprofit homeownership counseling organizations and 11 banks in the New York area. Bank coalition members include Astoria Federal Savings,

- Mortgage counseling for persons with disabilities, including general homeownership counseling and training in Fannie Mae's Homechoice program, designed to meet the mortgage needs of low- and moderate-income households with one or more family members with disabilities.



Community residents receive information at homebuyer fair.

In addition, AAFE CDF outreach programs introduce thousands of low- and moderate-income Asian Americans to affordable bank mortgage products. For example, AAFE CDF at its Homeownership Centers in Chinatown and Queens offers weekly homebuyer workshops and individual one-on-one counseling for low-income immigrants, working with more than 500 families annually of whom more than 20 percent secure mortgages and become first-time homeowners. AAFE CDF also participates in homeownership fairs and other community events designed to familiarize residents with the tools they need to secure affordable bank mortgages.

AAFE's evolution

Founded in 1974 as an advocacy organization for New York City's Asian and other low-income minority neighborhoods, AAFE has grown from a volunteer community-activist group to a nationally recognized social-services and community development organization. AAFE's programs include neighborhood preservation and revitalization, tenant organizing and counseling, homeownership counseling, citizenship outreach, entitlements/benefits counseling, community organizing, and a variety of technical assistance initiatives.

Chosen by the Fannie Mae Foundation in 1998 as one of ten organizations to receive its Sustaining Excellence Award, and the focus of a Fannie Mae best-practices study of homeownership programs for immigrant populations, AAFE has expanded beyond its New York

ing and packaging. In the past six years, AAFE CDF staff secured over \$60 million in mortgages for its clients. AAFE CDF staff's declination rate in mortgages referred to its bank partners was below 1 percent.

- Pre-purchase counseling, including purchasing procedures, mortgage financing, downpayment/closing cost fund accumulation, accessibility requirements and, if appropriate, credit counseling and debt consolidation. Through its HUD-certified Multilingual Housing Counseling Program, AAFE CDF staff has created culturally sensitive training materials and educational brochures in seven languages.
- Homeownership counseling and access to credit, including home-

Banco Popular, Bank of New York, Chase Manhattan Bank, Citibank, Dime Savings Bank, EAB, Fleet Bank, HSBC Bank USA, and M & T Bank. The referral network established as part of the Coalition offers a seamless transition for homebuyers between AAFE CDG and the member banks, eliminating some of the transactional barriers that can loom so large for immigrant households.

- Post-purchase counseling, including property maintenance, personal money management and accessing equity.
- Mortgage delinquency and default resolution, including guidance on restructuring debt, reinstatement and forbearance plans, and loss mitigation services.

Continued on page 22

The Special Purpose Credit Program: A Valuable Tool When Carefully Implemented

by Tim Robertson, *Community and Consumer Policy, OCC*

Lenders in today’s business environment face a multitude of challenges, one of which is expanding credit services to historically underserved markets. These include racial and ethnic minority populations and women. Lenders successfully serving these populations find the business profitable and the social benefit rewarding. However, entering historically underserved markets sometimes requires using special tools.

The Equal Credit Opportunity Act (ECOA)¹ and its implementing regulation, Regulation B,² bar lenders from discriminating “against an applicant on a prohibited basis regarding any aspect of a credit transaction.”³ This can be construed as preventing lenders from making any special effort to serve the underserved, if doing so would work to the disadvantage of other applicants. However, Regulation B does offer a tool that lenders may use to better

assist economically disadvantaged populations: the “special purpose credit program” (SPCP).⁴

Special terms

In essence, the SPCP allows for-profit lenders to offer special terms to a class of credit applicants, who may be required to share one or more common characteristics (for example, race, national origin, or sex), without violating the anti-discrimination provisions of ECOA and Regulation B. Among its other requirements, the regulation contains two main standards:⁵

“The program is established and administered pursuant to a written plan that identifies the class of persons that the program is designed to benefit and sets forth the procedures and standards for extending credit pursuant to the program;” and

“The program is established and administered to extend credit to a

class of persons who, under the organization’s customary standards of credit-worthiness, probably would not receive such credit or would receive it on less favorable terms than are ordinarily available to other applicants applying to the organization for a similar type and amount of credit.”⁶

Given that these program standards are quite general, some additional clarification may be helpful.

First, aside from stating which group the SPCP will serve, the lender’s written plan must contain information that supports the need for the particular program.⁷ The plan could describe the analysis it employed to identify the subject group both as underserved and as a candidate for the program. Although the regulation does not stipulate exactly what type of analysis should be conducted, the lender should be able to demonstrate how and why the target group would benefit from the SPCP.



¹ 15 U.S.C. § 1691 et sec.

² 12 C.F.R. Part 202

³ 12 C.F.R. § 202.4

⁴ 12 C.F.R. § 202.8

⁵ See also 12 C.F.R. § 202.8(a)(1) & (2) pertaining to state, federal, and non-profit program eligibility.

⁶ 12 CFR § 202.8(a)(3)(i) & (ii)

⁷ See Official Staff Interpretations, 12 C.F.R. Part 202.8, Supp. I (§ 202.8(a) B 6).

Immigrant Community *continued*

City roots and now works with Asian-American communities and community development organizations throughout the Northeast, Midwest and Mid-Atlantic states.

AAFE created AAFE CDF to broaden its homeownership counseling and financing efforts. AAFE CDF facilitates homeownership by offering affordable second mortgages as well as comprehensive counseling services, which are offered in Cantonese, Fukinese, Mandarin, Vietnamese, Hindi, Sindhi, Urdu,

Khmer, and Korean, as well as Spanish — a breadth of linguistic outreach probably unmatched by any other community development organization, and a testimonial to our commitment to reach underserved populations. AAFE CDF remains the only major provider of outreach, education, and advocacy on housing rights for the Asian-American community in New York, offering assistance to renters, prospective homebuyers, homeowners, and landlords.

As our name implies, Asian Americans for Equality stands for equal opportunity

in homeownership regardless of a would-be buyer’s geographic or economic origins. With the help of our banking-community partners, AAFE in the past seven years has helped more than 100 low- and moderate-income Asian-Americans and others to become homeowners. In an increasingly diversified nation, there is clearly a growing need for the kinds of targeted services and expertise we provide.

For more information, contact Siu Kwan Chan, Managing Director, AAFE CDF: 212-964-2288, extension 32.

Assume, for example, that a lender after reviewing Home Mortgage Disclosure Act (HMDA) data determines that the denial rate for African-American applicants within its assessment area is significantly higher than for white applicants. Based on this information and demographic data for the assessment area, the lender identifies that there is a need for the SPCP. It then creates an SPCP with alternative underwriting standards that it believes will help participants more readily qualify for credit and ultimately offset the denial rate disparity.

Properly implemented, an SPCP can help expand credit opportunities to economically disadvantaged populations.

A lender must include in the plan, along with the program procedures and standards, a statement regarding how long the SPCP will be in place or when the lender will re-evaluate the program.⁸ Again, the regulation does not stipulate the precise characteristics of this aspect of the plan, but its basic elements, i.e., period of the program or date for re-evaluation, must be included.

Cautionary considerations

Although the participants in an SPCP may be required to meet one or more specified characteristics (for example, race, national origin, or sex), the lender may not administer the program in such a manner as to discriminate against program applicants on any prohibited basis.⁹ For example, a lender may establish an SPCP to meet the identified credit needs of Native Americans. Although the lender may restrict participation in the program to Native Americans, it

⁸ See *id.*

⁹ 12 C.F.R. § 202.8(b)(2).

At A Glance

Expanding Credit Opportunities with Special Purpose Credit Programs —

- Special Purpose Credit Programs (SPCP) are intended to make credit available to borrowers who do not meet a lender's customary standards of creditworthiness.
- An SPCP allows lenders to offer special terms to a class of credit applicants without violating the anti-discrimination provisions of ECOA and Regulation B.
- The lender's written plan must contain information that supports the need for the particular program.
- A lender must include in the plan, a statement regarding how long the SPCP will be in place or when the lender will reevaluate the program.
- A properly implemented SPCP can be a useful tool for expanding credit opportunities to economically disadvantaged populations.

cannot discriminate on a prohibited basis within the SPCP itself, such as by treating Native American women less favorably than Native American men.

By adopting specific program requirements, a lender ensures that its SPCP complies with Regulation B requirements. Failure to do so is likely to nullify any legal special treatment of applicants, on a prohibited basis, purported to qualify as an SPCP. It may also result in a lender violating the non-discrimination provisions of ECOA and Regulation B.

Even when an SPCP meets all of the Regulation B requirements, lenders should be aware that someone may raise issues in connection with SPCPs. For example, an individual or group could allege that the lender illegally discriminated against them by excluding them from its SPCP on a prohibited basis. If that occurs, the lender may have to demonstrate that its SPCP complies with Regulation B and that it did not engage in any illegal discrimination.

Lenders should be mindful of two additional points about the SPCP. First, Regulation B does not contain a provision allowing lenders to “back into” an SPCP. Lenders found to be using a program that treats credit applicants less favorably on a prohibited basis cannot suddenly declare that the program or treatment constitutes an SPCP. Second, an

SPCP is intended to make credit available to borrowers who do not meet the lender's customary standards of creditworthiness. It follows that a for-profit lending institution may not be created as an SPCP. This means that a lender cannot choose to serve only one group of applicants, on a prohibited basis, and justify doing so by claiming that its entire business operation is an SPCP.

One final word of caution with respect to written agreements to expand credit to historically underserved groups: If a lender states in the agreement that it plans to offer special underwriting consideration or loan terms to applicants belonging to an underserved group on a prohibited basis, it must still ensure that neither the agreement nor any resulting action violates Regulation B.

A properly implemented SPCP can be a useful tool for expanding credit opportunities to economically disadvantaged populations. Although regulators do not require submission of SPCP plans prior to implementation, lenders should consider obtaining advice of counsel before implementing an SPCP. As is the case when rolling out any new product or program, it is usually much less costly to research before acting.

For more information, contact the OCC's division of Community and Consumer Policy: (202) 874-4428.