

The U.S. Banking Industry, Affordable Housing, and Inner City Redevelopment

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ABSTRACT

Increased owner-occupied housing and small start-up businesses are central ingredients in inner-city redevelopment strategies in the US, based on the premise that owners will act to protect the value of their investment through community participation. The US banking industry is in a position to promote affordable home-ownership and to extend credit to small business owners, but banks often lack trust and credibility in the communities where their services are most greatly needed, and they often lack insight regarding the financial management practices of the households and businesses whose formidable energies and aspirations might be channeled toward redevelopment goals. Ethnographic data are presented from two metropolitan areas in a rapidly growing Sunbelt state, identifying low-income and minority community perspectives on local banking practices, and recommending specific steps that banking organizations can take to address issues of affordable housing and credit to small businesses in the name of inner-city redevelopment.

Key words: *banking, affordable housing, urban poverty*

INTRODUCTION

Adequate shelter is a fundamental entitlement in a just society; affordable housing is out of reach for a growing number of people in the U.S. This paradox is at the heart of a complex policy problem whose solution calls out for the ethnographer's voice to answer. For it is the richness of our methods that enables us to give life to the numbers, examine critically the distribution of power, and illuminate the arc of institutional change.

Housing and homeownership in the U.S. have been subjects of ethnographic research for many years. Classic works have focused on housing as a symbolic feature of community life (e.g., Lynd and Lynd 1929; Gans 1962), and more recent analyses assume that housing is centrally situated in the lives of individuals, communities, and the nation's economy (e.g., Low and Chambers 1989, Ratner 1997). Careful explication of homelessness and forced dislocation in its global context (e.g., Glasser 1994) further adds to our understanding of both the micro- and macro-scale effects of housing and homeownership policies in the U.S. And of course, U.S. housing policy has been the subject of extensive analysis from a variety of disciplinary perspectives beyond ethnography (see, for example, Capek and Gilderbloom 1992, Goetz 1993, and Caplin et al. 1997 for a cross-section of recent housing policy perspectives from sociology, political science, and economics).

This paper's distinctive contribution is its focus not on community perspectives on housing and homeownership, but on the banking industry and its role in placing affordable housing within reach for more people in the U.S. As a complement to the recent work by Ratner and his colleagues, here we attend specifically to the impact that a decision-making model employed by one large banking organization might have on housing affordability in two rapidly growing Sunbelt metropolitan areas.¹ When this work was conducted, this bank's highest-ranking executives were committed to improving their organization's service to low-income and minority community residents in the places where the Bank does business. Of course, the Bank can benefit from this improved service through enhanced *Community Reinvestment Act* compliance and increased business. But equally important to the Bank's officials are the more generalized benefits of responsible corporate citizenship and the sustainable

¹ Due to confidentiality agreements, we have given pseudonyms to all the places and organizations discussed here. We believe that the circumstances described are common to any number of rapidly growing Sunbelt areas where growth is largely due to a large influx of in-migrants from throughout the U.S., Latin America, and the Caribbean.

development climate that is fostered by navigating past the shoals of quarterly shareholder dividends with an eye on a longer-term planning horizon.

This Bank's executives believe that (1) increased trust in the bank will lead to (2) increased numbers of loan applications from qualified low-income community members, which, in turn will lead to (3) more home ownership in the "affordable" housing market. Increased trust is also believed to lead to (4) more modest engagement of banking services by persons currently unable to meet the Bank's credit standards, which, in turn will lead eventually to a track record that will qualify many of these persons to secure a home loan. The executives thus regard as a key goal increasing trust and confidence in the bank on the part of low-income and minority residents through (a) improved customer service, (b) education programs that aim to help create realistic expectations of the Bank's degrees of freedom in determining loan applicants' credit-worthiness, and (c) acknowledgment of factors affecting the likelihood of homeownership over which no single banking organization has substantial control, like metropolitan housing market conditions. The Bank hired us to examine the premises of this model, and to compare this model with what low-income and minority community members themselves regard as the foundations of trust and confidence in banking organizations. At the most basic level, our job was to answer the question: "Why aren't more low-income and minority residents banking with Sunstate Bank?"

The rest of this paper is divided into three sections. First, a brief summary of data collection methods is presented. Next is a discussion of findings concerning the effect of housing market conditions, service, and education issues on the Bank's trustworthiness. The final section presents a series of recommendations for changes in Bank practices.

METHODS

We collected information through a review of background data compiled by the Bank's Compliance Department, and through interviews with Bank staff, selected community leaders, and persons taken as representative of the minority and low-income communities in two of Sun State's major metropolitan areas, Sun City and Silver City.

Background Data

We reviewed previous Community Reinvestment Act compliance examination summaries, along with the Bank's analysis of Home Mortgage Disclosure Act (HMDA) lending performance for the most recent period (1994 – 1995). We reviewed the agreement reached between the Bank and the community-based “Accountability in Banking” Committee,² which outlines key community concerns and contains a commitment to collaboration. We familiarized ourselves with loan products currently available, and with census data concerning general characteristics of the population.

Individual Interviews

We conducted individual interviews with Bank staff and selected community leaders suggested by the “Accountability in Banking” Committee to help clarify issues and prepare to interview members of the general community about consumer choices and possible barriers to the Bank's performance. Interviews with Bank staff involved personnel from Residential Lending, Compliance, Credit, and Marketing, along with District and Branch managers familiar with the areas' low-income and minority communities. In particular, spent considerable time with the Community Development Loan Officers who have the specific assignment to serve the areas' minority and low-income residents.

The interviews were semi-structured, conversational in flow and tone, with a list of topics identified, but no particular sequence in which the topics necessarily had to be addressed, and no specific wording to be followed in posing interview questions. Topics discussed with Bank staff included:

- General views of what contributes to CRA compliance challenges
- Apparent successes among competitors and among Sunstate Bank affiliates in other parts of country
- Why customers from low-income areas bank with Sunstate Bank
- What comparisons can be made between the two major Sunstate metropolitan markets
- Bank views on community development priorities
- Bank views on housing market and on community dynamics (e.g., significant gulf between Black and Hispanic communities, old-timers vs. newcomers)

² The “Accountability in Banking” Committee includes community leaders who are committed to insuring that low-income and minority residents receive adequate and fair service. This group is the primary mechanism through which the community provides formal input to the Federal regulators who audit Bank services and products available to low-income and minority residents in the Bank's market areas. Most states have organizations similar to this “Committee.” In the Sun State, however, this “Committee” is especially active and well-organized, and is committed to holding banks doing business in the state accountable to declarations of fair service.

- Overall banking climate in Sun State and effects of secondary mortgage market on Sunstate Bank's lending practices
- Barriers to bank access for loan customers (e.g., branch locations, language issues, hours of operation)
- Competitiveness of current loan products available, and market or internal organizational factors to which the Bank has responded with changes in product offerings over time
- Relationships with real estate agents and other key sources of referrals

Individual interviews with community leaders involved affordable housing advocates (e.g., the "Accountability in Banking" Committee, "Foundation for Urban Neighborhood Development," and the local Habitat for Humanity chapter), representatives from key community-based organizations (e.g., the "Sun State Economic Development Board" and two local Hispanic organizations), public housing officials, real estate agents, and small business owners. We chose the people we interviewed by a "snowball" sampling approach: we began with referrals from Bank staff and our own knowledge of affordable housing issues. We then asked each person to whom we spoke who else they would recommend we talk to, based on insights and experiences gained either from their formal position in the community or their informal reputation as having an active interest in affordable housing issues. We were especially interested in discussing views concerning:

- The roles and services provided by the community-based organizations in promoting affordable housing
- Priorities concerning banking needs in target communities and populations
- Barriers to bank access
- Similarities and differences among the approaches used by different banking organizations
- Community dynamics (e.g., community organizing efforts, inter-ethnic collaboration and conflict)
- Householders' and small business owners' money management practices

Focus Groups

Five focus group interviews were held in the two metropolitan areas. Participants in one group were drawn primarily from African American residents from a clearly identified Sun City neighborhood, another group was recruited primarily from Hispanic residents from another clearly identified Sun City neighborhood. The remaining groups consisted of low-income persons in Sun City and Silver City who are public housing assistance recipients, or who have displayed an interest in becoming homeowners, either by enrolling in home buyers' classes or applying to take part in the Habitat for Humanity program.

The sessions all took place at public libraries or community centers readily accessible to the neighborhoods from which participants were recruited. Sessions were scheduled for the early evening,

but one session in each city took place during the day to accommodate work schedules and other household responsibilities. All sessions were audio-recorded, and a bilingual co-facilitator was present for each session. We paid participants a \$20 honorarium to acknowledge our appreciation for sharing their time and insights.

DISCUSSION

The most deeply felt and frequently expressed concerns we heard in the course of the individual and group interviews fit into four main categories:

- Housing Market Issues
- Trust Issues
- Service Issues
- Issues Concerning Information and Education

HOUSING MARKET ISSUES

Housing market conditions in Sun and Silver Counties (the two metropolitan areas) affect the Bank's ability to serve residents in low-income areas and minority group members. Issues related to the local housing markets include:

- the regions' rapid growth over the past several years, especially as this growth has affected the availability of affordable housing,
- the location and quality of that housing,
- the transient nature of the population most likely to need affordable housing.

In addition there are other less tangible variables that affect the market indirectly, such as histories and perceptions of particular neighborhoods.

Home Ownership and Issues of History and Culture

Most of the focus group participants (70%) are renters.³ According to community leaders, the

³ According to the 1990 US Census, about 70% of dwelling units in Silver City Low-Income Census Tracts and 75% of dwelling units in Sun City Low-Income Census Tracts are renter-occupied. For Silver and Sun Counties as a whole, between 46% and 48% of dwelling units are renter occupied. The percentage of focus group participants who are renters is consistent with the regional pattern.

high proportion of renters is due mainly to the region's high proportion of recent in-migrants, the many individuals employed in minimum wage jobs, and the lack of affordable single-family dwelling units near to places of employment. We specifically targeted minority group members and low-income area residents in our focus group recruitment, and most focus group participants, regardless of whether they rent or own their homes, live in households that earn less than \$30,000 a year.

Interviews suggest that home ownership is highly valued among both renters and owners. Home ownership is associated with a sense of pride, self-direction, and freedom. Ownership conveys stability and improved living standards. However, many people with whom we spoke consider home ownership unattainable. They would like to own a home "someday." For many, owning a home is a "dream," but it is something they would like for their family's security. Many of the non-owners with whom we spoke are intimidated by the responsibility of home ownership and making mortgage payments. High down payments are regarded as an obstacle. The qualification process and the associated paperwork are viewed as long and difficult by both owners and non-owners.

Is home ownership valued differently in different cultural settings? Probably so, the world over. But among the Sun State residents we talked to, big differences are not apparent. People from all ethnic groups expressed a value for home ownership. Beyond this apparently universal desire for ownership, however, clear differences can be seen in personal financial planning strategies and the use of banks in money management, as well as in community-level organization based on race, ethnicity, and culture.

We heard from several sources in Sun City about significant tensions between Blacks and Hispanics, tensions that surface in community-based housing advocacy efforts. For example, a representative of a Sun City-based Hispanic organization reported that, while it has not always been the case, the Hispanic population currently lacks leadership and community based support attending to Hispanic affordable housing issues in the Sun City area. Some Hispanics feel that the banks and the public sector have paid more attention to the area's Black population, even though there are fewer Blacks than Hispanics. This focus may be due, at least in part, to divisions among Hispanics according to national origins (e.g., Cuban, Salvadoran, Mexican, second and third generation families from California), who are said to dislike being categorically referred to as "Mexican." Hispanics in Sun City told us that, contrary to common perception, a shared language does not necessarily signify a coherent bond or

integrated network. We heard from several Hispanics that although they may stand in line at a bank for a Hispanic teller, they do so because of the need to communicate, not because they believe they will receive better service. As one individual put it, "*A language similarity does not mean that [the teller] will help.*" African Americans in Sun City, on the other hand, were much more vocal in their desire to unite as a community for change and improved living standards.

In Silver City, we heard contradictory views about the connectedness of the Hispanic community from various leaders. One non-Hispanic regional community leader offered an "outsider's" view of the Hispanics living in the area, commenting that, although the Hispanic population is the fastest growing minority group, it does not appear to be a "cohesive" group. Other community leaders of Hispanic ethnicity indicated that there was a developed network among Hispanics in Silver City. One community leader said that he thought the "ghetto" areas in Silver City in which many Hispanics live are fairly stable and that there is a sense of community identification. It may be that for many Hispanic residents, extended family and neighborhood count for more than broader community connections. One real estate agent from the Silver City area said that some people would combine their resources in order to pre-qualify for a house. However, many individuals told us of a desire to move because they feel the area in which they live is unsafe. "*It's scary,*" one person said, "*I live right next to the Mexican Mafia.*"

On the one occasion that we did hear of a historical factor that might cause a person not to attempt to purchase a home, the underlying reason was based on a lack of knowledge regarding property and citizenship rights. Some Hispanic immigrants maintain their ties to Mexico and own property there. We were told that some people may not know they can also own property in the United States without giving up their citizenship and consequently their property interests in Mexico. In this case, an obstacle to home ownership, though rooted in historical conceptions, may be overcome through education and information.

Housing Market "Push" and "Pull" Factors

Making a choice about where to live involves "push" and "pull" factors. Neighborhood quality and safety are important; several people said specifically they would prefer to live in quiet, clean neighborhoods that are free of gangs and crime and that are not rowdy. *Noisy* and *dangerous* were

words used to describe many of the places where people currently live in both Sun City and Silver City. One individual said the growing trend for people to move outside of Silver City is due mainly to the deteriorating tenant neighborhoods. *"The landlords are letting the tenants tear down the community The people make the neighborhoods bad."*

The availability of community services is also an important factor. Good schools and the location of the stores are important attractors. Other considerations when looking for housing include size of both the house and the land. Some people expressed the need for several bedrooms due to family size and also the need to accommodate extended family. Others complained that the houses are "bunched" and too many houses are put on one lot. The "postage stamp" yards of many of the homes affordable to the focus participants are viewed as particularly unattractive. In addition, we heard questions about the construction quality of newer houses from some people who are concerned about the great speed at which the houses "go up." However, several people pointed out that better quality often means higher prices. In one person's words, *"If they are fixed up, then they're too high. If I stay over here (on the west side) I'm still in a dump yard; but I like all the people, I'm familiar with them; your neighborhood is really what you make of it."*

From a community leader we heard that, *"People, even though they are on public housing, will not just take any home. They are concerned about good schools and the neighborhood."* In addition, we heard that people take into account whether the property will depreciate in value. This consideration is often based on the perceptions of the neighborhood, both their own and those of the bank with which they hope to deal. Another person pointed out that if the value of Sun City's predominantly African-American district was considered to be competitive with (an upscale) area, people would move there; but the area is seen by bankers as a high-crime area, a mind-set that causes the value of the property to decrease.

While neighborhood characteristics are important to the people we interviewed when considering where to buy, the desire to simply get out of the neighborhood in which they currently live was expressed by some. We heard references to the proximity of gangs, the roughness of the neighborhood, and concern for children's safety. One person told us *"my children felt like they were in jail."* Another said that he recently moved and now pays a higher rent but, he says *"it probably saved my life."*

Availability of Affordable Housing

Other people were more satisfied with where they now live. However, we heard from community leaders and focus group participants alike that affordable single-family dwellings for which borrowers would qualify are limited in many of the areas close to where people are employed. Many expressed interest in newly developed neighborhoods but found the houses too expensive. In Silver City especially, we frequently heard that “*the market is too high,*” not only for single-family dwellings, but for rental properties as well. Some participants moved in with family in order to save money for a down payment. We also heard from Silver City residents that low-income housing is not available unless one is willing to commute at least 20 minutes, or longer if weather conditions intervene. The lack of a strong transportation network is, for some, another inhibiting factor to purchasing affordable homes further from employment centers.

Community leaders in Silver City attribute the lack of affordable housing to the region’s inability to keep pace with growth, and to the changing nature of the population in the area. Construction costs related to land, building materials, and geographic considerations contribute to the high cost of housing and discourage developers from building low-income homes. Particularly affected by the lack of affordable housing are female-headed households. One community leader commented that in Silver City, little effort has been made to provide the type of affordable housing that would best suit the needs of single-parent mothers who are burdened with child care, medical, and transportation costs.

Focus group participants consistently expressed frustration with the lack of affordable housing, and community leaders were in agreement with the need for more housing for which low-income and minority individuals could qualify. However, tempering these sentiments were the comments made by a few people who were not originally from Sun State. These people commented that the neighborhoods that are considered “slums” and “ghettos” in Silver City and Sun City are a few notches above the ghetto areas of LA and Chicago. One real estate agent commented that he has always been able to find a house for under \$90,000 for a prospective buyer. “*I tell people that they must learn to crawl before they can walk.*” He told us he advises people to build up some equity, which they can then reinvest in another home. These comments highlight the importance of the role one’s perception of an area plays in determining where people want to live.

Community leaders and affordable housing advocates offered some suggestions for the development of additional affordable housing. One person suggested that to encourage construction of affordable single-family housing, developer fees associated with the environmental impact statements required in new development projects be waived, thus reducing the developers' need to add additional costs to the housing being developed. Another housing advocate encouraged the construction of planned unit developments consisting of attached townhouse, quad, or zero lot line units with common shared amenities, providing a more affordable home ownership option for entry level, low-income, and single parent families.

TRUST ISSUES

People told us at great length about how they feel about banks and the amount of trust they place in banks. The discussions suggested that people's feelings and impressions of banks are based mainly on direct personal experiences, although stories about these experiences travel by word-of-mouth to great effect. The various accounts illustrate a pattern of reciprocity between low-income and minority Sun State residents and the banks with which they do (or do not do) business. Unfortunately, the exchanges about which we heard have not cultivated positive interaction. In simple terms, the people with whom we met do not trust banks. This sentiment is motivated and reinforced by the perception that banks do not trust them. These feelings of lack of trust were expressed towards banks in general, although specific experiences often single out particular lending institutions.

People we interviewed mentioned a number of specific issues that influence how they feel about banks. These include the banks' image, the type of service they receive, and the gulf between the way bank products are advertised and what the "fine print" says. Other factors that affect how people feel about banks are less dependent on the banks' service, but rather are grounded in value orientations regarding institutions of authority.

Bank Image

When asked about their images of banks, some particularly negative comments were cited by focus group participants: *square box, big, cold, no faith, rip off, money hungry, broken promises, and big brother.*

Community leaders, referring specifically to the Sunstate Bank, felt that the Bank's size is intimidating to the community. It was suggested that the large size of the Bank might be more palatable to people if it was perceived as a community bank. As it is, focus group participants reported feeling like they are nothing but "*decimal points*" to the Bank. One focus group participant voiced the common perception that credit unions are perceived as more personal and community-oriented – "*banks have put a lot of credit unions in business.*"

While not expressed specifically by focus group participants, we did hear from community leaders that people are intimidated by Sun City's downtown financial district, and would prefer a satellite office to a branch, especially a satellite staffed by people "*like themselves.*"

Meetings with Bank staff revealed concerns about intimidation factors associated with emblems and architectural design of branches, as well as the images employees portray to customers through their attire and demeanor. We did not hear any comments in the focus groups about staff attire. And focus group discussions suggested that while many banks are perceived as sterile and impersonal, the physical design of the buildings was not as off-putting to people as the expectation that they would be denied service. As one participant put it, "*going into a bank is more intimidating than doing the paperwork [for a loan]. Most people know they have a 90% chance of a 'No'.*" Said another particularly frustrated person, "*single women need not apply.*"

Bank Services And Their Effects on Trust

Focus group participants cited several service issues that affect their trust in banks. While some people commented on the desirability of having staff who speak Spanish, language barriers are not viewed as the most pressing issue. One Hispanic leader advised that a more concentrated effort be made to put Hispanics in visible positions at banks in order to foster a sense that banks are part of the community or part of "*la familia.*" However, providing bi-lingual brochures within branches, while helpful,

is also considered “*preaching to the choir.*” Other people pointed out that regardless of language issues, banking standards and procedures will remain the same and not affect the probability of obtaining a loan approval. In fact, several Hispanics conveyed experiences in which they felt discriminated against at banks that staffed bilingual employees, because they were not offered help by non-Spanish speaking staff who were available to provide service.

In addition to communication problems associated with language differences, participants expressed frustration with another kind of translation issue related to the complicated loan application process. Participants who had applied for loans in the past said that the application process inhibits feelings of trust towards banks. We heard that people feel as if banks have a secret code that is needed to fill out loan applications and that guidance about how to apply is withheld. More than one person commented that they feel as if banks have an “edge” over them in that the bank makes the pertinent decisions regarding the type of product that will be made available to the individual. Many participants said they want to make their own decisions about products and resent feeling, as one person stated, as if “*we are the peons, they are they brainy ones.*”

Several people spoke about experiences in which they had been told by bank loan officers that they would be approved for a loan, only to find after various iterations and conscientious attempts at meeting bank requirements, that they had been denied. These experiences have cultivated a deep sense of frustration, a perception of inevitable rejection, and lack of faith in banks among several focus group participants. The square box analogy so often heard in reference to banks was expressed by one participant who said “*You have to fit through a little window--we are just slightly to the side.*” We heard accounts of people who, when unable to obtain financing from banks, side-stepped banks altogether and drew upon help from friends, family, and church groups in order to finance purchases such as cars.

Experiences of bank denials are viewed as broken promises, and can have widespread impact. Not only do they contribute to a deterioration of trust towards banks for the individuals immediately involved, but they also affect the perceptions of other community members who learn of such negative experiences. Distrust of banks may pass through generations as children observe and absorb the experiences of their parents.

Other service-related issues that influence whether or not people trust banks stem from the fees

that are associated with particular services. Dissatisfaction with the charges attributed to checking, savings, and ATM services was a topic of much discussion among at focus groups. One participant's comment sums up the sentiments of many, *"They get your money, use it, and charge you for it."* Some people expressed the perception that these charges often appear *"hidden,"* which decreases their trust in the banks. In general people feel as if they are providing banks with investment money, yet they receive very little in return.

Bank Products

We heard from several focus group participants that the way bank products are advertised is often misleading. People often believe that not all of the pertinent information is disclosed, and they are skeptical about what they hear and see. One person commented, *"In advertising they give you the big humbug, but when you get there, it's not all that great. Not all of the information is presented in the ad."* People view many product promotions as a medium used by banks to get their presence known in order to make money. They do not "trust" that what is being promoted is the service that will be provided. *"What's the catch"* and *"It sounds too good to be true"* were comments we heard from people when they talked about bank promotions. "First month free" checking promotions that do not reveal the fees charged after the first month, and credit card offers that do not clearly disclose interest rates – these are only a couple of examples mentioned that promote this skepticism.

How do people respond when they think they have been misled? *"If rates go up, just close the account, but get it in writing...If you get offers on new cards with good rates, take them, when rates go up, close out and get a new card."* Comments like these suggest that focus group participants do not believe that banks are looking out for their best interests. Their responses may be interpreted as indicating a lack of loyalty to the bank, and reflecting an interest in obtaining the best deal. However, the comments we heard from community leaders and focus group participants suggest that low-income and minority customer interests are not cultivated on a regular basis. Efforts that are made, such as providing grants to non-profit organizations, are often sporadic and interpreted as *"guilt money."* We heard from one community leader that to the banks, *"selling loans is like picking the flower, but not understanding how it got there."* The image conveyed by such statements is that banks need to cultivate their clients, to build

their trust in order to obtain and maintain their loyalty.

“Cultural” Issues

Outreach that provides a personal touch was suggested by an advocate for Hispanic concerns. This person counseled that Hispanics often develop strong bonds of loyalty and if these ties are cultivated by banks then continued dealings with Hispanics will be assured. However, interviews with other community leaders and housing advocates revealed that banks need to surmount some cultural barriers to be able to provide such services to the Hispanic communities in Sun State. We heard in Silver City that Hispanics historically have been reluctant to deal with banks. Reasons cited include a distrust of banks in general, which heralds from a belief that banks are “crooks.” This perception is said to be based on the debt failures and bank closures that occurred in Mexico. Instead of using banks, Hispanics are known for keeping cash savings around their homes. We heard one account of a Hispanic family that kept \$3,000 in a shoe box because the family did not believe the money would be safe in a bank. Also cited was a “cultural value” of having cash on hand, and paying all expenses in cash because of not wanting to be indebted to anyone.

In Sun City, we heard of similar cash-only money management patterns from the Hispanic community. However, the motivation reported here for using cash does not derive from a cultural heritage of bank fraud and failure, but from the types of service and product-related trust issues discussed above. And in the specific context of residential lending among Hispanics, we heard that there are too few minority real estate agents whom Hispanics believe they can trust.

These accounts and experiences depict a pattern of interaction between low-income and minority residents and banks that hinders the development of trust. Focus group participants’ skeptical attitudes towards banks are reinforced by the way they are treated by banks. For example, the finger-printing practices of some lending institutions, though intended as a protective measure against fraud, only serve to make the customer feel the criminal. These interviews and discussions suggest that a more symbiotic relationship based on an expression of the mutual benefits available to both the bank and its customers – “*We give to them, do they give back to us?*” – would go a long way to improving the level of trust people have for banks.

One way for the Bank to strengthen trust and thus increase its customer base among Sun State's low-income and minority residents is to develop more cohesive and regular connections with the non-profit organizations in the community. Community non-profits are regarded as trustworthy organizations within the community and they, in turn, can help to validate the Bank's trustworthiness.

Another suggestion for improving trust is to develop education programs that would help low-income and minority customers actually achieve the "end" result, that is, the loan approval. Bank follow-through on promises of financial support is highly valued, yet rarely obtained by the people with whom we spoke. Knowledge of people's successful experiences with banks would spread throughout the community, improve the general perception of the bank's willingness to help, and foster trust.

CREDIT ISSUES

Focus group participants told us about specific instances in which they had applied for loans, credit cards, or check guarantee cards, or offered reasons why they had never made such applications. The stories they told raise more general issues about whether the Bank's credit standards adequately reflect their current ability and willingness to repay loans; whether credit examination criteria limit potential customers' access to affordable housing markets; and how, over the long-term, the Bank might more actively cultivate loan customers by first meeting other financial management needs and developing a more favorable impression of Bank services.

From these accounts, we constructed several patterns of bad credit histories, a lack of credit histories, and responses from a lending institution (not necessarily the Sunstate Bank) that applicants found less than helpful.

No Credit History

Because of who we interviewed, we did not hear of many specific instances where people had difficulty getting a loan application approved because of an inadequate credit history. But we did hear that this is more likely to occur among Hispanic area residents, and the reasons are fairly consistent. First is a cultural argument, that "*Hispanics don't want to be indebted to anyone; we always pay cash.*" However important this cultural value may be, it is also important to recognize that the "Hispanic"

population is itself rather diverse, encompassing recently arrived Latin American immigrants, second- and third-generation families from California, long-time Sun State residents, and even a sizable group of Cubans who arrived in Sun State as part of the wave of *marielitos* released by Castro in the early 1980s.

A lack of credit history because of dealing mainly with cash is perhaps better understood as the combined result of a cultural orientation along with some practical considerations. Check use is discouraged for some, for example, because it requires a check guarantee card in Sun State. Obtaining a check guarantee card, in turn, may require an account reserve that flunks the "cost/benefit" test for a household that has used up many of its liquidable reserves to relocate to Sun State, especially when other outlets will cash a pay check.

The focus group participants frequently mentioned other reasons for dealing mainly in cash: bank service fees are perceived to be disproportionately high for the size of typical transactions or account balances, funds deposited are not immediately available for withdrawal – this is especially troublesome for a person whose Friday paycheck is needed to purchase weekend groceries. The net effect for some people, especially younger people or people newly arrived in the area, is that they have not established a credit history to support their loan application.

In addition, we heard that advice on establishing a credit history is not always easy to follow: The process of applying for a loan is discouraging if one hasn't ever done this before. It is not easy to anticipate specific needs for supporting documentation and account numbers if one has not applied for a loan previously, and some people said they were not encouraged to take the loan application forms home to review them more carefully. Also, people reported that although they were advised to "start off small," they found that they could not get even a small consumer loan without securing it with a relatively large cash reserve. If consumer loans are available for a principal amount of less than \$2,500, this is not well known.

Bad Credit History

Problems establishing a credit history were overshadowed by the many, many more instances related to us involving loan applications denied because of what the lender regarded as bad credit histories. The general themes in these accounts are that all too often, the lender: (1) appears to be unwilling to look at the prospective borrower's specific circumstances, (2) applies credit examination standards that do not appear to accurately predict the borrower's current ability to repay the loan, or (3) inadvertently limits prospective borrowers' access to the affordable housing market.

Here are some examples related to us that argue in favor of a more flexible approach to applying credit standards:

Debt/Income Ratio Too High – Beyond the usual reasons (e.g., outstanding consumer debt or student loans), the Private Mortgage Insurance (PMI) requirement for many affordable housing loan products was frequently cited as keeping people out of the market, as was the apparent disfavor with which the Sunstate Bank regards loans for condominium purchases. We were told that the PMI requirement may be as high as 1 percent of the loan value, which, on a \$70,000 house, takes away roughly \$10,000 in purchasing power. With a more resourceful approach to meeting the intent of the PMI requirement people could qualify for houses of better value in today's market. One real estate agent told us about a Sunstate Bank program – a 2% seller carryback – that he regarded as a good program in the affordable housing market, but it was stopped when PMI underwriters wouldn't approve customers, even though they had already qualified for the loan.

Condominium purchases also represent a point of access to the affordable housing market, but the homeowner association fees are counted as debt by credit examiners, and frequently raise the applicant's debt/income ratio to a disqualifying level. It was pointed out to us that the association fees are used primarily for expenses (exterior maintenance, landscaping, security, garbage pick-up) that owners of detached single-family home also face. Yet these expenses are not counted in the debt/income ratio calculation for applicants seeking to buy a detached dwelling. Similarly, duplexes are seen as a readily available way for low- and middle-income households to meet extended family needs, but it is complicated to finance them; the down payment for a duplex is considered an "investment" for the borrower, as half is not the primary residence.

Statute of Limitations – Many stories about denied loan applications suggested that the individual circumstances that led to past credit problems have changed significantly, and old problems that have since been cleared up or eliminated should not be considered as a predictor of one's current ability to repay a loan. Bankruptcy, repossession, and early termination of apartment leases were discussed in this context, but distinctions were made among these types of credit problems. It was pointed out to us that legally, bankruptcy is federally-provided protection so people can start over. From this perspective, the Bank was admonished to refrain from categorically rejecting applicants with a bankruptcy in their credit history, and to look at specific circumstances of each applicant.

Categorically rejecting applicants with a repossession or a lease termination in their credit history was also seen by some as unfair, since the lien-holder usually resells the repossessed item and recovers its investment, while the borrower loses the use of the item (or the apartment), still has to pay the rest of the loan (or forfeits a security deposit), and has a cloud on their credit history that is seemingly impossible to eliminate. Again, the specific circumstances of each applicant's history need to be more closely examined, in the view of the focus group participants.

Outstanding medical bills from many years ago constitute another source of credit problems where focus group participants suggest the individual circumstances need to be more carefully examined. The Sunstate Bank was actually singled out as being more understanding than other lenders when credit histories are affected by medical bills. Many low- and middle-income households who have moved to the Sun State in the past 10-15 years left southern California and the upper Midwest because of severe regional economic downturns. We heard several stories of people losing their jobs, having their employee health insurance coverage cut off, and falling behind on their medical bill payments. However, moving to Sun City and Silver City, getting reestablished, and paying off their previous obligations apparently has not cleared their credit records.

Other "statute of limitation" problems mentioned in individual credit histories include:

- ***Marriage-related:*** Marrying someone with previous credit problems, then having the marriage dissolve, but the inherited credit record persists; ex-spouse does not honor child-support obligations, so custodial parent is responsible for unpaid bills that former spouse is supposed to have paid.

- **Timeliness of payments:** a borrower may be late on a single payment, and then pay each subsequent installment at monthly intervals, but each payment was recorded as "late;" unless it is explained and corrected, this can accumulate into a large cloud over one's credit history, large enough so that even if it happened several years earlier, it is considered grounds for rejecting a loan application.
- **IRS inquiries:** because of the prevalence of tip income among the Sun State's tourism and service sector employees, some focus group participants felt they had been singled out for review by the Internal Revenue Service, particularly in the first years after the changes instituted in reporting tip income. Even if there were irregularities then, this occurred several years ago, and if the problem was cleared up, people felt it should not be used as a predictor of current ability to repay a loan.
- **Credit History Inaccuracies:** Several focus group participants reported that their loan applications had been rejected because of inaccurate information on their credit records. They acknowledged that the burden of clarifying the record falls to them, but if they have moved out of state, or the circumstances they feel were inappropriately attributed to them happened a long time ago, it is difficult and expensive to provide adequate supporting documentation to clear their records. In addition, one participant reported that even when she thought her record was cleared, it appeared that this was not on the "master" data record, just on some monthly record of changes, and even greater efforts were required to set the "master" record straight.

Miscellaneous Credit Problems – Less frequently cited, but just as discouraging for the individuals involved, are a number of other credit problems where focus group participants felt they ought to have a chance to explain more fully the specific circumstances, as these problems do not accurately characterize their ability to repay a loan. Into this miscellaneous category fall such problems as:

- **Not on job long enough:** We heard one instance where a loan applicant had changed their line of work, going from being a restaurant cook to an iron-worker (with considerably better pay); they run the risk of being rejected because they haven't been at their new job long enough to establish a track record.

- **Can't verify source of cash down payment:** Receiving a cash gift from family, or cash savings from wages, are often subject to close scrutiny by credit examiners, and the grounds for rejecting a loan application when sources can't be verified. For the complex reasons described above, many low- and middle-income workers deal mainly with cash, rather than with checking and savings accounts, and the need to verify cash sources is not well understood by a substantial number of loan applicants.

Too many inquiries about one's credit: New arrivals to the area often consider multiple local sources of consumer credit, or take advantage of discounts offered to customers who are willing to open credit accounts with particular stores. It was brought up in one focus group that having too many inquiries within a short period of time regarding one's credit history can become a reason for having a loan application rejected, but the basis for doing so is not well understood.

Sunstate Bank-Sun State Credit Standards

Focus group participants had little to say about the Sunstate Bank in contrast with other lenders,⁴ but individual interviews with community leaders and affordable housing advocates produced a number of important observations about the Sunstate Bank in particular. Several people mentioned that the Sunstate Bank has acquired a reputation for being "tough on credit," and this discourages people from applying for loans with the Bank. The Bank was singled out as not accepting loan/value ratios that other lenders will accept (e.g., a program being promoted by the Silver City Housing Authority currently involves a 2% down payment, an 8% subsidy from the Housing Authority, and a 90% mortgage, but the Sunstate Bank won't participate).

The Bank was also singled out as not providing consumer loans in amounts lower than \$2,500, making it difficult for people of modest means to establish (or re-establish) a problem-free credit history. Other banks were reported to have a minimum loan amount of \$500. We hasten to note that even if loans **are** available from Sunstate Bank in amounts smaller than \$2,500 (and they are), this is not as well known among market segments most likely to find this attractive.

More generally, the structure of the Bank's decision-making authority was criticized by one

observer, who noted that although the Sunstate Bank will pre-approve an applicant, it still requires the Chief Credit Officer to sign off on the loan, and the Chief Credit Officer is not local. This causes delays and sometimes goes against the pre-approval decision. When the Freddie Mac program began to accept "B" and "C" credit in 1996, this same observer noted with skepticism that the Bank was unlikely to respond.

A number of suggestions were offered by focus group participants, community leaders, and affordable housing advocates we interviewed. For example, it was suggested that the Bank consider creating its own in-house Private Mortgage Insurance pool, perhaps creating a reserve account for each customer, with the borrower contributing \$10/month for a term of five years, or a pre-paid fee, that would, after this term, be applied to the principal value of the loan. Another suggestion was to offer interest concessions to provide an incentive to individuals who successfully complete a personal financial management training course and clear up past credit difficulties. It was suggested that the Bank consider progressive programs involving different loan repayment schedules, targeting lower-income retirees and specific lower- to lower-middle income occupations with seasonal pay fluctuations, for example, school district employees, who receive their salaries over 9 months rather than year-round.

Almost everyone we talked to pointed to the need for better coaching about how to improve problematic credit records, and about how best to respond to an initial denial. This coaching needs to be done in a well-planned fashion, as more than one focus group participant reported the experience of feeling they had followed all the advice they had been given, only to discover that there was yet another requirement they had to fulfill.

SERVICE-RELATED ISSUES

No subject touched off a stronger emotional reaction than when the discussion came around to issues about banking services. People reported they will not hesitate to change banks when they feel they have received inadequate service. The bottom line is that they believe service needs to be more personalized and more informative, people of color need to feel more welcome in Bank branches, and fees need to be more in line with the size of transactions.

⁴ The identity of the Bank was not revealed to focus group participants. However, we encouraged participants to

Sunstate Bank? We don't know, but it is a cautionary tale, all the same.

People were generally favorable about the availability of ATMs, but strongly expressed resentment about service fees, especially when the amount of money involved in a typical transaction is relatively small. People also complained about the availability of funds after a deposit is made; in one person's words,

If you put a deposit in on Friday afternoon, you can't touch the money until Monday, that really sucks. It is better to go to [another venue that cashes checks] and cash your check ... you just show your i.d., and then hold onto your cash over the weekend.

The other service issue raised concerning ATMs is the denominations in which withdrawals can be made. Totally unsolicited, one focus group participant described in great detail her knowledge of which Sunstate Bank ATMs disburse cash withdrawals in \$5 denominations, prompting another participant to report her strategy for avoiding teller charges – at a branch where the ATM only disburses cash in \$20 increments, she reports coming into the branch to cash a check for, say, \$35, an amount that would not be available from the banking machine outside. These stories and others like them can be understood as reflecting a fundamental acceptance of a suitable service role of ATMs, but their inadequacy as a total substitute for personalized service. Similarly, we heard more than one comment about the disappearance of drive-through windows at branches, which some women especially appreciate because of the feeling of safety one has in staying in one's car with sums of cash on hand. Again, the drive-up ATMs will probably fill a suitable service role, but if they aren't programmed to take deposits and issue withdrawals in appropriate denominations, they will likely not be regarded as an adequate substitute for personal service.

More Welcoming to People of Color

I don't feel welcome. They are not glad to see me. Maybe because I don't have a lot of money. Last time I opened an account, the lady wasn't friendly, made me not want to go there.

Race is an inescapable fact of contemporary American society. Polarization and outright discrimination on the basis of race and ethnicity may be less extreme in Sun State than in other parts of

the country, but they are definitely a part of the local landscape. And while we can all feel gratified about the progressive steps taken to eliminate barriers to community development, there is still much ground to cover. The discussion of service-related issues prompted in many of our interviews a number of affecting stories about the subtle and insidious forms of racism that seep in around the edges of even the most routine-seeming transactions. The consistent theme in all these accounts is that the Bank, through its service orientation, can do considerably better at making people of color feel they are welcome to do business with the Bank.

What are some of ingredients of a welcoming presence? The Bank needs to maintain its presence in the communities, certainly. While the Bank is active in the Sun City area (branch managers are applauded for their participation in community-based organizations' activities, and the contributions of the grants program are greatly appreciated), it was reported to us that in Silver City, "[Another bank] is a real presence. Employees attend numerous committee events and meetings. Sunstate Bank is just not out there."

Perhaps it is as much a trust issue as it is one of service, but more than one person told us that they felt the Sunstate Bank doesn't have enough minority employees: "*We don't see people who look like us sitting on the other side of the desk.*" In addition, suspicions are raised among prospective borrowers that their applications are treated differently, given greater scrutiny, if they identify themselves as a minority group member. One person whose loan application was denied told us, "*I made an inquiry about the 'office use only' box. I know (the code) was for race. I was told that 'it didn't concern me.'*" In the absence of a clear explanation for the denial, he wondered whether it had something to do with his race.

When we probed specifically about language issues among the Hispanic population, the responses we heard were not uniform. Some people strongly felt it is important to have a bilingual bank staff member available, and the Bank should realize that the number of Spanish-speakers in the potential customer base will almost certainly continue to grow. Others said that they prefer to deal with banking matters in English, even if it is their second language, because they want to be sure they are being treated the same as English-speaking customers, and not subject to imprecise translations that carry no binding authority.

Would a "storefront" community lending center seem more welcoming than current bank

branches? The general consensus that emerged is that an informal, approachable atmosphere is attractive, but equally important are (1) the availability of full-service banking conveniently located, rather than the apparent "come to us" mentality the Bank is said to have, and (2) local decision making control, that takes into account a richer understanding of local needs. The Sunstate Bank established a full-service branch in the predominantly African-American neighborhood in the wake of the 1994 uprising (after the first Rodney King verdict in Los Angeles). Although we heard complaints expressed about its ability to handle the local demand in a timely fashion because of its size, we also heard a great deal of praise for the Bank for being first into the neighborhood with full-service banking, and special praise for the branch manager and staff for their participation in community activities. A (predominantly Hispanic neighborhood) Sun City branch was similarly praised.

Ideally, community leaders and affordable housing advocates told us, branches should have greater degrees of freedom in loan-making decisions. It would place the branch manager in an awkward position, however, if s/he were given the authority to make decisions, but no ability to take individual circumstances into account in reviewing loan applications; the manager would simply become the bearer of bad news. In short, a "storefront" community lending center is probably *not* necessary if the local branches are of adequate size and staff to offer full-service banking, and if control over a portfolio tailored specifically to meet local needs is retained closer to the communities for which it was intended.

In the words of one community leader, people of color feeling welcome as Sunstate Bank customers will be a reflection of the Bank's "long-term thinking. Bad experiences are spread through word of mouth." From this perspective, the Bank's almost exclusive near-term focus on selling loans is misplaced; the greater need, at least among Low-Income Census Tract residents in Sun City, is to support community development by making capital available to small businesses through loans and also through procurements as well. With a financial management track record, small business owners will, over time, become home loan borrowers; both the Bank and the community will win. It was reported to us that some recent Sunstate Bank products (Minority- and Woman-Owned Business Enterprise loans) were well-designed, but their availability could have been more effectively advertised.

Service Fees

The last category of service issues frequently mentioned involves service fees, especially in relation to the size of typical transactions in the communities of interest. People reported to us that they resent having to pay a fee to see a teller, and that the monthly service fees charged for checking accounts are out of line, as are fees required to obtain a print-out of checking transactions, especially when deposits are not immediately available and a secured check guarantee card is required. Fees are charged for maintaining a savings account whose balance dips below a certain level. People also reported that they resent the prospect of having to pay a fee for use of ATMs.

Several suggestions were offered to improve the quality of banking services offered. The Bank could form an "Education Team that offers basic information about the benefits of Bank services (e.g., the value of a savings account, what service fees are used for), and that explains what is needed to qualify for specific loan products. For small business start-ups, the Bank might provide *pro bono* accountants and lawyers. For people trying to establish a credit record, it was suggested that the Bank offer a secured credit card that stays secured rather than reverting to unsecured after 18 months, thus allowing application of less restrictive credit criteria standards. For checking account customers, the Bank was encouraged to look for ways to expedite the review and issuance of check guarantee cards. For home loan customers, it was suggested that the Bank offer gift certificates as an incentive for saving for a down-payment, and provide after-market gifts (e.g., a tree to plant in the yard, which would be a visible symbol of long-term thinking) and after-market education about debt service, home care, and so forth. Automatic loan payments were characterized as positive by some people, and this option should be available. The Bank was urged to increase the number of ATMs with bilingual capabilities –currently, 18 out of 600-700 ATMs operated by Sunstate Bank in Sun State are bilingual.

INFORMATION AND EDUCATION

The last major theme consistently highlighted in our interviews concerns a series of issues about effective approaches to information and education. We believe the prospective customer base in the affordable housing market is more highly segmented than what is reflected recently in general advertising approaches. General advertising, when poorly focused, produces poorly qualified loan applicants. In turn,

this results in a reduced funding ratio, and, more important in the long-term, discourages other prospective loan customers by adding word-of-mouth stories about denied applications. The bottom line here is that the most effective form of advertising is neighbor-to-neighbor, and the most effective messages add value in the form of information, not just image.

Audiences

Minority and low-income area residents in Sun State do not see themselves as a single group. It is quite apparent that African Americans and Hispanics comprise different market segments, and communications focusing on one of these two populations will not necessarily resonate with the other. In addition, the two major metropolitan areas have different community dynamics, differences which should continue to guide the Bank's approach to community involvement. We understand the current trend toward centralization within the Bank's corporate marketing and advertising functions, but we assume that within the available repertory of marketing materials and databases, messages and channels of communication can be developed that focus more directly on these ethnically distinct market segments.

Messages

Three main messages appear to be most productive: (1) This is a bank that is involved in **this** community, neighbor-to-neighbor; (2) Here are specific reasons our products and services add value to your family and community; (3) Here are specific ways we are ready to help our bank-customer relationship grow.

Community Involvement/Neighbor-to-Neighbor: In interviews, we asked people specifically to tell us about bank advertisements they could easily recall. [Another bank's] advertising was mentioned quickest and most frequently. People said they liked the "subliminal" message about connecting with the bank, along with specific information about products that accompanies this message. When the Sunstate Bank was mentioned, its advertising was said to make an emotional appeal, but with little success:

They are trying to tell me: "you may not feel 'safe' with a small bank," and they are trying to tell me they are friendly. They are not. I know."

Is a message getting out effectively: this is a bank that is involved in the community? The Bank received praise for its grant programs, and for volunteer staff time contributed to the community at large. However, our impression is that the Sunstate Bank's community involvement message is not reaching the minority and low-income area residents as effectively as it might. Part of the reason may be due to a need for greater representation of minorities in print and broadcast advertising. There may also be a staffing issue. We were told rather directly by one community leader that a reconsideration of current marketing staff assignments could make a substantial difference in effective communications with the African American community in Sun City.

“Value Added” / What has the Bank done for us lately?: Do prospective customers see how the Bank's products and services add value? We think there is room for improvement here, as well. The whole litany of complaints about service fees can be framed in the context of “value added” – the one focus group participant who told us he felt the monthly account statements were worth the service fees and additional transaction fees charged was definitely in the minority – and suggests the Bank needs to more clearly and specifically communicate what it has done for its customers and the customers' communities lately.

Growing Customer Relationships: In the affordable housing market, the greatest information need is to communicate clearly and specifically about ways the Bank is ready to help its bank-customer relationship grow. Focus group participants and community leaders alike were unanimous in their view that it is the Bank's responsibility to add to customers' knowledge base so customers can make informed decisions about their choice of banking services. Knowledge accumulates step-by-step, and banks were urged to recognize that many people who will eventually consider becoming home loan customers first need more basic information about checking and savings account management, credit card counseling, and qualifying for consumer loans. As one focus group participant put it to others around the table, *“even if you think you can't qualify, you should still come in and receive some advice on how to qualify.”*

We were told that the Bank should offer home buyer classes, which led us to believe that many people are not aware that such classes are offered. For those who know about the classes, they are seen as extremely useful, and we were told that the effectiveness of these classes can be enhanced if they are offered on a more consistent calendar schedule, like every month.

Customers who have had a loan application denied frequently said they wished they received additional information about why the application was denied, and guidance on how to obtain this information in a user-friendly fashion could be better advertised.

Communication Channels

Do people subscribe to newspapers, or are there more effective channels to use in providing people with information about Bank products and services? We didn't collect enough of the right kind of information to design a productive media strategy, but the people we talked to strongly agreed that information is just as important as image, and trusted information travels by word-of-mouth. This suggests that at least some of the channels used to communicate with specific audience segments should support a richer stream of information flow. Advertising in community newspapers, radio and television stations, direct mail advertising, along with participation in community celebrations – channels that are currently used to one extent or another – can succeed in reaching appropriate target audiences. More might be done in each of these communication channels – an 'Ask Mr. Mortgage' radio show was suggested, for example, and community colleges were identified as heavily utilized community institutions, so channels that reach community college populations should be more fully explored. With each of these channels, however, the message has to be there. As one focus group participant told us, *"If they advertise in the [local African-American newspaper], we think they are user friendly. But then we try them, and don't see that. But our initial perspective is that they 'took the time to talk.'"* And in the case of direct mail advertising, of course, the quality of the database can have a significant impact on the effectiveness with which qualified prospective customers are reached.

We are not advertising specialists, but it occurs to us that if expert insights confirms that "word-of-mouth" is a trusted communication channel, perhaps a special Bank advertising campaign could be developed to encourage target audiences to "pass the word" along to friends and neighbors if they are especially pleased with the Bank's products and services.

CONCLUSIONS AND RECOMMENDATIONS

The original question with which we started - why aren't more minority group members and low-income area residents banking with Sunstate Bank? - is deceptively simple. As our discussion of issues concerning today's affordable housing market, trust, credit, service, and information suggests, the current circumstances are complex, but changes are achievable that will benefit both the community and the Bank. Our recommendations to the Bank included a long-term institutional change that would jettison some historical baggage, and several much shorter-term prescriptions for action.

LONG-TERM POSSIBILITY: From research conducted largely in older metropolitan areas of the Northeast and Midwest, recommendations for change in banking practices are substantial and provocative. Bank managers in cities like St. Louis and Cleveland have been urged to consider prospective customers in low-income and affordable housing markets as a separate business, just as some banks have come to view "transportation lending" or "over 50 lending."

In these same metropolitan areas, whose economies and housing infrastructure face challenges marked by re-building, rather than growth management, the research literature also suggests the possibility of several banks establishing a consortium that operates branches in low-income neighborhoods under a single name. In this scenario, such branches might be staffed by specially recruited community members, not bank personnel, adding insights and experiences regarding the specialized needs of low-income customers.

In our interviews, we frequently heard great praise for the efforts of current Community Development Loan Officers and CRA compliance staff. Just as frequently, we heard that these few individuals cannot meet all of the communities' needs by themselves. The provocative proposal to jointly participate in community banking could potentially help distribute the financial and time costs that these kinds of focused personnel investments generally incur. The benefits could be shared by the participating banks, most notably in the area of CRA compliance. This effort would not necessarily have to detract from other business areas where the Bank has proved itself to be a successful competitor in recent years.

NEAR- AND MID-TERM RECOMMENDATIONS: We recognize that Sun State's economy and demographic profile differ substantially from other locales that have offered proving grounds for alternative approaches to community banking. However the Bank organizes its response to needs among minority group members and low-income area residents, our interviews have produced a number of recommendations that we think bear repeating.

In offering these shorter-term recommendations to the Bank, we admonished Bank officials to acknowledge that *if they think the Bank is already doing something that fulfills roughly the same objective, it is very important to recognize that there may still be a COMMUNICATION problem; that is, a better job could be done to let customers (and potential customers) know about Bank services and products.* We left it to the Bank's specialists to evaluate the feasibility of alternatives for implementing these recommendations.

Housing Market Recommendations

- Feature Bank financing for affordable housing development more prominently when it occurs.
- Seek waiver of developer fees for environmental impact statements, or alternatively, seek other banks to contribute jointly to offset development fees in an affordable housing development project.
- Support planned developments with entry-level townhouse, quad, or zero lot line units to make affordable home ownership an option.

Trust-Related Recommendations

- Everything the Bank does to deliver on its local service commitments will affect the level of trust it enjoys among minority group members and low-income area residents. In the near-term, working more consistently with community-based non-profit organizations, which already enjoy the trust of their constituents, may prove to be an effective near-term strategy.

Credit-Related Recommendations

- For potential customers with no credit history, expedite requests for checking accounts and check guarantee card
- Make consumer loans available with a minimum size that matches local competition, and better publicize products already available
- For potential customers with past credit problems, the Bank should explain more thoroughly how it considers individual circumstances, and the Bank should consider ways of providing more personalized guidance to throughout the loan application process
- Consider changes in examination standards regarding condominium association fees and duplex purchases
- Consider setting up, at least on an experimental basis, an in-house Private Mortgage Insurance pool, either through a reserve account or pre-paid fee eventually to be applied to loan value.
- Consider offering interest concessions as incentives to people to complete personal financial management training course and clear up past credit difficulties.
- Consider experimenting with alternative payment schedules targeting retirees and workers with seasonal fluctuations in pay, such as school district employees
- Prepare to respond to anticipated Freddie Mac's acceptance of "B" and "C" paper beginning in

1996.

Service-Related Recommendations

- Enhanced cultural sensitivity training is needed for retail staff
- Step up recruitment of minority staff for key retail positions
- Make bilingual staff more readily available in selected locations where demand is highest
- Target procurements from small, minority-owned businesses to generate financial management track records and produce, over the long-term, prospective home loan customers
- Offer a secured credit card that remains secured, rather than reverting to unsecured after 18 months
- Offer no-fee checking and savings for low-income and minority residents. Perhaps an incentive program can be created for opening a checking account.
- Offer *pro bono* accountants and lawyers to assist with small business startups
- Consider offering after-market gifts to home loan customers (e.g., tree to plant in yard as a visible symbol of long-term thinking), along with after-market education about debt service, home care
- Increase availability of ATMs with bilingual capabilities
- Provide more information about what customers get for the fees they are charged

Information and Education Recommendations

- Target marketing efforts to more narrowly segmented audiences for information and marketing purposes
- Deliver three main messages:
 - This is a bank that is involved in **this** community
 - Here are specific reasons our products and services add value to your family and community
 - Here are specific ways we are ready to help our bank-customer relationship grow
- Consider sponsoring an 'Ask Mr./Ms. Mortgage' radio show
- Make staff assignment specifically to complement existing public information and outreach in Silver City market
- Make more effective use of community college communication channels in reaching community members
- Offer educational programs on a regular basis to help guide people through the loan application process; consistency, and repeated follow-up are important.

POST SCRIPT

This work was completed in 1996, and some time has passed since we offered these recommendations to the Bank. Housing prices in the Sun State continue to escalate faster than most incomes. We'd like to be able to report that our work was eagerly accepted and translated into a specific action plan, most of which has been implemented to illustrious effect. We say "we'd like to" report this; however, the action plan has not been fully realized.

Through follow-up discussion with the Bank executives, we learned that the Bank's response to our findings and recommendations was favorable. The "Accountability in Banking" Committee also found our assessment and recommendations to be on target, and encouraged the Bank to take action based on

the recommendations. At the time, the Bank was strongly inclined toward improving service and products to the low income and minority communities.

Admittedly, such an intensive focus on community development issues runs contrary to normal banking practices, which typically focus on the “bottom line” rather than on interim steps that could eventually improve the end point. At the time we delivered our recommendations, we think four key elements converged to help direct the Bank’s attention to such matters:

- 1) the very real need within the community for affordable housing and better services and products that are truly accessible to low income and minority communities;
- 2) an active and powerful community-based organization advocating on behalf of these communities;
- 3) financial resources and support from high-level Bank executives; and
- 4) an impending Federal audit on the Bank’s community reinvestment performance. The latter ingredient was particularly important because the outcome of the audit influences the Bank’s future business activities, such as mergers.

The convergence of these four elements served to heighten the Bank’s awareness of service and product shortcomings for the low-income and minority residents. In response to the need for change, the Bank’s Community Reinvestment Committee used our recommendations to create “action items” and “performance measures” that addressed each of the five areas of need — housing market, trust, credit, service, and information and education. The Committee received management approval to execute its plan, and continues to mark modest progress towards achieving its goals. Larger forces are at work in the financial industry, and they have reverberated with disruptive effect throughout the Bank’s organization.

Support from high-level Bank executives was displaced, along with the pressure of an impending Federal Community Reinvestment Act exam. The Bank underwent a major reorganization, which led to transfers and promotions of several key personnel to unrelated assignments. At about the same time, the motivation brought on by the impending Community Reinvestment Act compliance exam was lost — the audit was postponed for over a year. In response, the “Accountability in Banking” Committee shifted its attention to another area bank in the middle of acquisition-and-merger activities.

Although our work was enthusiastically received by the Bank, it has not fully translated into actions that will promote a significant short-term increase in affordable homeownership. We remain optimistic about the longer-term prospects. This project has demonstrated to our satisfaction that community investment demands of social scientists and community advocates a constructive engagement with corporate citizens. We believe that we have succeeded in offering a concrete prescription for action by at least one powerful member of the U.S. banking industry. We also believe that rather than obscuring our work with talk of “hegemonic discourses” and other inaccessible jargon, it is our responsibility as practical, problem-solving social scientists to engage the “powerful other” out of a sense of common purpose, to mobilize action for more affordable homeownership.

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